

BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION, BENGALURU**Dated 30th May,2019****Present:**

Shri Shambhu Dayal Meena	Chairman
Shri H.M. Manjunatha	Member
Shri M.D. Ravi	Member

ORDER**In the matter of Approval of Revised ARR consequent on APR of FY18 and approval of ARR for the next control period FY20-20 and revision of Retail Supply Tariff for FY20 of Mangalore SEZ Limited****Preamble:**

As per the Extraordinary Gazette Notification dated 3.3.2010, issued by the Ministry of Commerce, Government of India, all the Special Economic Zones notified under sub-Section (1) of Section 4 of the SEZ Act, 2005, shall be deemed to be a Licensee as per Section 14 of the Electricity Act, 2003. The Mangalore Special Economic Zone Ltd, by virtue of the aforesaid Notification issued by Government of India, became a deemed Distribution Licensee, w.e.f 03.03.2010.

The Mangalore Special Economic Zone Ltd., (hereinafter referred to as MSEZL) has filed the application dated 29th November, 2018, for the approval of ARR due to APR for FY18, Approval of ARR for the fifth Control Period FY20-22 and determination of retail supply tariff for FY20, in terms of the KERC Tariff Regulations and the MYT Regulations.

In exercise of the powers conferred under Sections 62 and 64 and other provisions of the Electricity Act, 2003, KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations 2006, read with the KERC (Tariff) Regulations, 2000 and other enabling

Regulations, the Commission has considered this application and also the views and objections submitted by the consumers and other stakeholders while passing this Order. The Commission's decisions on various aspects, are brought out in the subsequent Chapters of this Order.

The details of the licensee's proposals, Commission's analysis and the decisions thereon, are discussed in subsequent paragraphs of this Order.

Licensee's Profile:

The MSEZL was incorporated in February, 2006 under the Companies Act, 1956, having its registered office at Infantry Road, Bengaluru and its site office located at Ashok Nagar, Mangalore, Dakshina Kannada District. The MSEZL is an SPV co-promoted by the Oil and Natural Gas Corporation Ltd, (ONGC), the Infrastructure Leasing & Financial Services Ltd, (IL&FS), the Karnataka Industrial Areas Development Board (KIADB) and the Kanara Chamber of Commerce and Industries (KCCI).

Based on the availability of contiguous parcel of land, MSEZ has been notified as a Sector Specific SEZ for Petroleum & Petrochemical sector in 2007, spread over 1620 acres. The development of SEZ will cater to the intermediate petrochemical units and downstream petrochemical industries adjacent to MRPL refinery and the existing aromatics complex of OMPL.

Now, MSEZL being upgraded to Multi Product SEZ can attract investments from sectors viz., Petroleum & Petrochemical Products, Plastics, IT & ITES, Pharma, Textiles and Manufacturing & Others. Currently, MSEZL has attracted investments from Petrochemicals, Pharma and Food Processing Industries.

MSEZL's Activities:

- a) MSEZL has constructed 110/33/11KV substation (GSS-03) with installed capacity of 40MVA, which can be augmented, to 80MVA to cater power to various units. Though MSEZL is a multiproduct SEZ, majority of industries located in it are petrochemical industries and as per the norms of OSID, MSEZL receives and distributes power to all its consumers by underground

cables only. A stable and quality power supply is being provided to 11KV consumers through Ring Main Units which are inter-linked with UG cables and for 33KV consumers the supply is directly fed through radial feeders emanating from 110/33/11KV GSS-03.

- b) The 110/33/11KV GSS-03 of substation receives stable power from the nearby 220/110/11KV Main Receiving Sub-station of KPTCL at Bajpe, for which 13.939 acres of land within the MSEZL area is leased to KPTCL. From this receiving sub-station, MSEZL has laid twin circuits of copper underground cables of 110KV class 400-sqmm cable to GSS-03, each circuit is capable of delivering 80MVA power, with an augmentation. The total route length of the twin circuits is 1.9 KMS.
- c) In the upstream 220/110/11KV Main Receiving Sub-station of KPTCL, the power is sourced through the 220KV Double circuit line from Kemar to Kavoor. This line is integrated to the grid network of KPTCL and further to the southern grid of India.
- d) Based on the existing consumer's requirement and requirement of power for upcoming industries, the Grid substation with 40 MVA capacities, is capable of catering power until FY 2022.

Consumer of MSEZ:

The consumers of MSEZL as at the end of 31st March, 2017 is shown hereunder:

TABLE – 1

Consumers of MSEZ During FY18

Sl. No	Customers
1	ONGC Mangalore Petrochemicals Limited
2	Indian Strategic Petroleum Reserves Limited
3	Syngene International Limited, a Biocon Company
4	Catasynth Specialty Chemicals
5	Cardolite Specialty Chemicals LLP
6	Trident Infra Private Limited
7	Authentic Ocean Treasure
8	Gadre Marine Export Private Limited
9	Yashaswi Fish Meal & Oil
10	Shree Ulka LLP
11	MSEZL utility installations numbering twelve

Consumers Profile as on 31-03-2018

As on 31 March 2018, the Company was providing power supply to consumers at different voltage levels, as given below:

Sl. No.	Class of Consumer	No. of consumers	Voltage class	Sanctioned load MVA
1	HT - Industrial	10	33/11KV	19.865
2	LT - Industrial	5	440 V	0.146
3	HT - Construction	1	11KV	2.0
4	LT - Construction	3	440 V	0.208
	Total	19		22.219

Background for filing the Tariff application:

The Commission, in its Order dated 14th May, 2018 had determined the ARR and the retail supply tariff for FY19. Further, in its Tariff Order dated 30th March, 2016, the Commission has approved the ARR for the control period FY17-19 besides revising the retail supply tariff for FY18.

Now, the MSEZL has filed an application on 29th November, 2018 and has requested the Commission to:

1. Pass appropriate order for FY18, based on APR submitted;
2. Consider the tariff structure and proposal for FY20 detailed in the Tariff application and approve proposal made in this Tariff Application.
3. Pass appropriate orders on the application made by MSEZL.

Acceptance of Applications and Consultation Process:

The Commission, vide its letter dated 18th December, 2018 communicated its preliminary observations and the MSEZL in its letter dated 21st December, 2018 has furnished its replies.

The Commission, vide its letter dated 27th December, 2018, informed the MSEZL that, its application filed on 29th November, 2018, for approval of APR

for FY18 and approval of ARR for the next control period FY20-22 and revision of retail supply tariff for FY20 in the Mangalore SEZ area, has been treated as a petition in terms of the Tariff Regulations, subject to further verification and validation and informed it to publish a summary of the application in the leading newspapers in the distribution area of the MSEZL, inviting objections/comments/suggestions from the consumers and other stakeholders.

Accordingly, the MSEZL has published the summary of its application on 4th January, 2019 and 5th January, 2019, the following Newspapers:

Kannada Newspapers : Udayavani, and Vijayavani.

English Newspapers : Deccan Herald, The New Indian Express.

Public Consultation:

1. In pursuance of the provisions of Section 64 of the Electricity Act, 2003, the Commission has undertaken the process of public consultation in the public hearing, to obtain suggestions/views/objections from the interested stake-holders, on the application filed by the MSEZ, for Annual Performance Review for FY18, approval of ERC and ARR for the Control period FY20-22 and approval of revised retail supply tariff for FY20, under the MYT Regulations.
2. The Commission had allowed a month's time for submitting the written objections and received only two written objections from M/s Cardolite Speciality Chemicals India LLP, (IP-01) and Mangalore Special Economic Zone, Mangalore (IP-02) within the stipulated time.

The Statement showing the Objections of the Stakeholders / Public, Response of MSEZL and the Commission's Views thereon is as under:

Objections	Replies by MSEZL
1. Section 61 of the Electricity Act, 2003 gives the guidelines for the determination of tariff. Nine guidelines have been given in that	This is the factual submission of Section 61 of Electricity Act, 2003 and hence no comments are offered.

Objections	Replies by MSEZL
<p>section, out of which we are presenting here below three of the important guidelines:</p> <p>a. The generation, transmission, distribution and supply of electricity are conducted on commercial principles.</p> <p>b. Safeguarding of consumer's interest and at the same time recovery of the cost of electricity in a reasonable manner.</p> <p>c. That the tariff progressively reflects the cost of supply of electricity, and also, reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission.</p>	
<p>Commission's Views: The reply furnished by MSEZL is noted.</p>	
<p>2. The Hon'ble Commission should note that the business model of Mangalore SEZ Ltd and the business model of the various other DISCOMs operating in Karnataka is different. While, other DISCOMs have to provide power infrastructure spread over a huge area and build up the facility to give last mile connectivity to consumers, Mangalore SEZ Ltd has to create infrastructure for a limited saleable area of around 900 acres. Further, the sales of power depend on the ability of Mangalore SEZ Ltd to attract new investors (customers) to its Special Economic Zone. It is normal for a start up to have less capacity utilization in the initial years,</p>	<p>The interest and depreciation is calculated based on the norms stipulated in the tariff regulations.</p> <p>The issue raised here is already addressed by us while giving reply to a similar objection raised by the objectors, in relation to MSEZ tariff filling for FY16, FR17, FY18 & FY19 and also in their objections to the review petition filed by MSEZL for FY18. The Hon'ble Commission has already considered these issues and expressed its judicious view and accordingly the tariff orders are passed. Hence, we need not again go into the similar repetitive issue being raised by the objectors again and again. However, the Hon'ble</p>

Objections	Replies by MSEZL
<p>however, it would be unfair that the unabsorbed overhead (including interest and depreciation) be charge to the existing few units of Mangalore SEZ Ltd.</p>	<p>Commission may address the issue as it deems fit.</p>
<p>Commission's Views: The Commission has taken note of the reply furnished by the MSEZL. The issue has been appropriately dealt with in the tariff order.</p>	
<p>3. When the Multi Year Tariff regulations was notified, Karnataka had Public Sector Undertaking as DISCOM, who would distribute all the power in the state. However, in the recent year, various private players have been approved to supply and distribute power in certain area, especially the SEZ developers which are deemed distributors of power. The development of SEZ is over a relatively a very small area maybe around 1 to 2 thousand acres as compared to other DISCOM like BESCO which cover a few districts. Hence, the existing guidelines are not suitable for the users of Power with SEZ area. Hence, we request to consider the following amendments given in Annexure- 1 to the decode the old regulation for determination of tariff. Alternatively, a different Multi Year Tariff regulations for SEZ Developers may be framed keeping the interest of the SEZ Developers and the SEZ units.</p>	<p>The parity in the end tariff is ensured by the Commission by fixing / determining the tariff so that a similar class of consumers in the same area of operation are not put into a disadvantageous position. Thus, it may please be noted that MSEZL consumers are not paying more than the tariff rate paid by similarly placed consumers in the same area of operation.</p>
<p>4. Considering the request to amend the Multi Year Tariff regulations for SEZ Developers, the interest on</p>	

Objections	Replies by MSEZL
<p>Capital, Depreciations on the actual infrastructure required may be considered.</p>	
<p>Commission's Views: The Commission has taken note of the reply furnished by the MSEZL. The issue of amending the MYT Regulation or issuing a different MYT Regulation for SEZ developers is a different issue. Amending any Regulation or issuing separate Regulation is not part of the Tariff Proceedings. The Commission can take up Commission if the stakeholders file separate petitions in the matter.</p>	
<p>5. MSEZL has created infrastructure for the existing and the future units in Mangalore Special Economic Zone. However, many of the existing units are not availing power as per the anticipated power requirement. We request the Hon'ble Commission to kindly increase the demand charge per KVA per month from Rs.200/- to at least Rs.250/- as these demand charges have direct relationship with the infrastructure created. Correspondingly, the unit charges may be reduced accordingly to compensate the higher demand charges.</p>	<p>The issue will be suitably dealt by Commission in the tariff order, as it would deem fit.</p>
<p>Commission's Views: The Commission has taken note of the reply furnished by the MSEZL and the matter has been dealt with appropriately in this Tariff Order.</p>	
<p>6. The Hon'ble Commission may note that there is constant power demand in Mangalore Special Economic Zone. Hence, it is request that the Hon'ble Commission should consider the pool cost of power as stated above while fixing tariff to Mangalore SEZ Ltd while fixing the tariff of MESCOM to MSEZL. This move is in interest of MSEZL to attract</p>	<p>MSEZL has requested through the good offices of Hon'ble Commission to consider approving the cost of energy supply from MESCOM based on the method adopted for FY19 in tariff order dated 14th May, 2018. The issue will be suitably dealt with by the Commission in the tariff order as it would deem fit.</p>

Objections	Replies by MSEZL
new industries to Mangalore Special Economic Zone.	
Commission's Views: The Commission has taken note of the reply furnished by the MSEZL and the matter has been dealt with appropriately, in this Tariff Order.	

3. The Gist of the objections by the Stakeholders during the Public hearing held on 07.02.2019:

The Commission has held a Public Hearing on 7th February, 2019, at Mangalore to elicit the views / objections and suggestions of the general public / stakeholders. The details of the oral submissions are as under:

Sri Abdur Rehman Musba representing M/s Cardolite Speciality Chemicals India LLP, submitted that:

- 1) The interest and depreciation should be restricted to the capacity catered by the MSEZL instead of the capacity of infrastructure created by it.
- 2) The consumers of the MSEZL should not be charged more than the similarly placed consumers in the MESCOM area.
- 3) The tariff to the MSEZL consumers should be fixed considering the small area of supply as compared to the large area of supply by the ESCOMs. For this, the MYT Regulations may be suitably amended.
- 4) The demand charges may be increased from Rs.200 / Kva / month to at least Rs.250/kVA/month and the energy charges may be reduced correspondingly.
- 5) The MESCOM should sell power to SEZ at the pooled power purchase cost as no infrastructure of MESCOM is used by MSEZL.
- 6) As the number of consumers in SEZ are limited, it is requested to direct the SEZ Developer Distribution Licensee to intimate the consumers directly regarding the petition and receive a No Objection, instead of issuing full page advertisement in various newspapers, with which there would be some cost saving for the SEZ Developer and the consumers as well.

- 7) Few of the consumers within the SEZ are not drawing power from SEZ. Whereas the infrastructure is created for all the consumers within the area of SEZ and hence the cost is borne by other consumers.

Replies by MSEZL:

The MSEZL, while furnishing replies stated that above points are to be considered by the Commission while taking decisions on the tariff issues

Commission's Views:

The APR and ARR exercise is being undertaken in accordance with the provisions of the MYT Regulations. The Commission has kept in view the suggestions made by the stakeholder while passing this Order.