CHAPTER – 1

ANNUAL PERFORMANCE REVIEW FOR FY18

1.1 MSEZL's Application for APR for FY18:

MSEZL has filed its application for Annual Performance Review (APR) for FY18 and determination of ARR for the Control period FY20-22 and retail supply tariff for FY20 on 29th November, 2018. MSEZL has sought the approval for its APR for FY18 based on the Audited Accounts.

The Commission in its Tariff Order dated 08th May, 2017 had approved the ARR along with Retail Supply Tariff for FY18. As per the Order of the Commission in RP No.08/2017 dated 26th October,2017 had approved a revised ARR which was given effect in the Tariff Order 2018.

The Commission in its letter dated 18th December, 2018 had communicated its preliminary observations on the application. MSEZL, in its letter dated 21st December, 2018 has furnished its replies to the preliminary observations of the Commission.

The Annual Performance Review of MSEZL for FY18 as per the provisions of the MYT Regulations and based on its audited accounts is discussed in this Chapter.

MSEZL's Submission:

MSEZL has submitted its proposals for revision of ARR for FY18 based on the Audited Accounts as follows:

TABLE – 1.1

ARR for FY18 – MSEZL's Submission

Amount Rs. in Crores

SL. No.	PARTICULARS	As Filed
1	Energy at Interface in MU	42.19
2	Distribution loss (%)	0.93%
3	Sales in MU	41.80
4	Revenue from sale of power	34.76
	Total Expenditure:	
5	Power Purchase Cost	25.55
6	Repairs & maintenance	0.70
7	Employees costs	0.41
8	A&G expenses	0.24
9	Depreciation	2.73
10	Interest on Loans	2.25
11	Interest on excess equity investment in GFA	1.18
12	Interest on Working capital	0.70
13	Interest on consumer deposits	0.26
14	Less: Expenses capitalized	0.00
15	Return on Equity	3.03
16	Less: Other income	-0.36
	Net ARR	**36.70**

Considering the revenue of Rs.34.76 Crores against a net ARR of Rs.36.70 Crores, MSEZL has reported a gap in revenue of Rs.1.94 Crores for FY18. Further, MSEZL has submitted that in accordance with the Tariff Order dated 08th May, 2017 read along with the Tariff Order dated 14th May, 2018 for FY19, they have considered to carry forward the net revenue deficit of Rs.3.91Crores for FY18 as accrued revenue and arrived at the net deficit for FY18.

MSEZL in its filing also stated that the prompt payment incentive being higher by 0.14 Crores than the penalties imposed and has affected the FY18 gap and has decided to carry forward the same to the ARR of FY20. Further, MSEZL in its applications has decided to absorb the remaining gap in revenue of Rs.1.80 Crores for FY18. Further, MSEZL in its applications has requested that, any increase in revenue gap on account of increase in Power Purchase Cost may be allowed to be passed on and recovered from the consumers during FY20.

1.2 The item-wise review of revenue and expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

1.2.1 Sales for FY18:

MSEZL in its Tariff Petition, has submitted the category-wise actual sales which is indicated in the table below:

Consumer Category	FY18 Energy Sales (MUs)
HT Industrial	41.11
LT Industrial	0.33
HT Construction	0.22
LT Construction	0.14
Total	**41.80**

MSEZL has submitted that the total sales for FY18, is 41.80 MU as against sales of 84.60 MU approved by the Commission, in its Tariff Order dated 8th May, 2017.

MSEZL has submitted that energy sales at 41.80 MU has increased by 2.25 times as compared to FY17 energy sales of 18.60 MU. The MSEZL has stated that the energy sales were less than the anticipated levels, due to cautious drawing of power from grid by one of its consumers. It is stated that since the consumer had experienced increased power jerks due to disruptions/grid outages at upstream KPTCL grid, resulting in production loss, it had reduced the load from the grid.

The Commission in its preliminary observation, had observed that the actual sales as per current filing [D-2 Format] is 41.80 MU, indicating substantial reduction in sales to an extent of 42.80 MU as compared to the approved sales of 84.60 MU for FY18.

The Commission also noted that the reduction in sales is attributed to reduced off-take by one of the bulk consumer. In this regard, the Commission directed MSEZL to furnish details of estimated and actual sales for FY18.

MSEZ in its replies, to preliminary observations, has furnished the details of HT bulk consumer-wise sales, as sought by the Commission, as shown in the following table:

TABLE -1.2

Estimated sales Projection Vs Actual Sales for FY18

S.No.	Consumers	Estimated Projections for FY18 (MU)	Actual Energy Sales in FY18 (MU)
1	ONGC Mangalore Petrochemical Limited	70.00	27.03
2	Indian Strategic Reserve Petroleum Limited	6.47	4.85
3	Cardolite Speciality Chemical India Limited	6.1	6.91
4	JBF Petrochemicals Limited	-	0.22
5	Anthea Aromatics Pvt. Ltd.	0.22	-
6	Syngene International Ltd.	0.22	0.01
7	Authentic Ocean Treasure	0.792	1.64
8	Shree Ulka	-	0.05
9	Yashaswi Fish Meal & Oil	-	0.01
10	MSEZL Utilities	0.8	1.08
	Total	**84.60**	**41.80**

The Commission notes that ONGC Mangalore Petrochemical Limited has drawn less power to an extent of 42.97 MU [70.00-27.03], which is the main reason for reduced sales as compared to the approved sales. Therefore, the Commission having noted the reduction in sales with respect to the approved figures**, hereby approves the actual sales of 41.80 MU for FY18**.

1.2.2 Distribution Losses for FY18:

MSEZL, in its Tariff Petition, has submitted that for FY18, MSEZL has provided 0.2S accuracy class tri-vector energy meters, CTs and 0.2 class PTs to its 33 KV and 11KV **consumers**. Further, they have carried out the calibration of the meters at all their consumers' ends and it was found that all the meter errors were within the permissible error limit. MSEZL submitted that the actual distribution loss was at 0.93% as against an approved distribution loss of 0.86% for FY18.

Sl.No.	Voltage Level	Energy Purchase at IF point	Distribution Loss (MU)	Sales (MU)	Distribution loss (As % of total energy at IF point)
1	33KV	39.15	0.36	38.79	0.85
2	11KV	2.70	0.02	2.68	0.05
3	LT	0.34	0.01	0.33	0.03
	Total	**42.19**	**0.39**	**41.80**	**0.93**

MSEZL requested the Commission to allow the actual distribution loss at 0.93% for FY18.

The Commission, in its Tariff Order dated 08th May, 2017 had fixed the distribution loss at 0.86% as proposed by the MSEZL for FY18. The Commission notes that, MSEZL has exceeded the distribution loss target for FY18 by 0.07%. The Commission directs MSEDZ to take necessary action to reduce the distribution losses in future to the targeted level set by the Commission. Thus, the Commission decides to approve the distribution loss percentage of 0.93% achieved by MSEZL for FY18.

1.2.3 Power Purchase for FY18:

MSEZL, in its application has reported that it has purchased 42.19 MU at the IF points of MESCOM at a cost of Rs.25.55 Crores as against the approved power purchase of 85.33 MU at a cost of Rs.49.49 Crores for FY18. MSEZL has submitted that they have sourced the entire power from MESCOM only and that they have paid to MESCOM at Rs.5.80 per unit along with the FAC charges from time to time, to arrive at a power purchase cost of Rs.25.55 Crores. Further, MSEZ also included the difference of the power purchase cost of Rs.60 lakhs paid to MESCOM as per the Commission Order dated 08.05.2017 for FY16 in the total power purchase cost claimed for FY18.

MSEZL has requested the Commission to pass orders for recovery of the entire increase in the power purchase cost, if any, while approving the ARR as per APR for FY18 from the consumers during FY20. MSEZL in its filing has submitted that, they have incurred Rs.0.14 Crores as an additional power purchase cost because of the Commission approved TOD rebate allowed to the consumers during FY18 and requested to reduce the same amount out of the allowable increase in the power purchase cost payable to MESCOM.

The Commission notes from the audited accounts of MSEZL the actual quantum of power purchased from the MESCOM at IF points is 42.19 MU and at the approved rate of Rs.5.80 per unit in the Tariff Order dated 11.04.2017, the total cost works out to Rs.25.55 Crores after inclusion of the FAC charges paid to MESCOM during FY18. The Commission also notes that, MSEZL has included Rs.0.60 Crores being the differential amount of power purchase cost, approved as per APR for FY16 by the Commission in RP No.08/2017 dated 28.10.2017, which was ordered to be recovered directly from the MSEZ consumers in proportion to their consumption during FY16, as onetime payment. Since the amount of 0.60 Crores has been recovered from the consumers directly, the question of including it in the power purchase cost for FY18 will not arise. Hence, the Commission decides not to consider the difference in the power purchase cost of Rs.0.60 Crores, approved as per APR of FY16 in RP No.08/2017 dated 28.10.2017, in the .revised ARR of FY18 during the APR of FY18.

Further, the Commission notes that MSEZ has included an amount of Rs.0.14 Crores allowed towards ToD rebate has been included in the power purchase cost, which is not part of power purchase cost. Hence the Commission decides not to consider the claim of Rs.0.14 Crores in the allowable differential amount of power purchase cost, payable to MESCOM for FY18.

The Commission has considered 5% of the MESCOM's power purchase, at the margin, at the generator bus for computing the total power purchase cost while approving the ARR for FY18. The Commission had considered 95% of the said energy at the marginal cost from long term sources and 5% from solar power(RE) sources. The Commission has adopted the same approach for the determination of power purchase cost as per the APR for FY18. While determining the Power purchase cost, the Commission has considered 95% of energy at the marginal cost from long-term sources and 5% from Solar Power(RE) sources and the actual source wise power purchase as per the audited accounts of MESCOM for FY18 is detailed below:

TABLE – 1.3

Power Purchase Cost-FY18

Particulars	Energy in MU	Total Cost-Rs. Crores	Per unit Cost in Rs.
5% requirement of MESCOM	283.34		
95% of Requirement	269.17		
Kudgi TPS	147.96	92.56	6.26
NLC-TPS-2 Exp.	39.60	23.45	5.92
UPCL	81.61	46.56	5.71
NCE- Solar Power	14.17	9.29	6.56
Total PP cost at 5%	**283.34**	**171.86**	**6.07**
Transmission and SLDC Charges		11.00	0.3881
Total PP & Transmission Cost		**182.86**	**6.45**
Trading Margin at 5 paise per unit		1.42	0.05
Total Cost		**184.28**	**6.50**
Energy at Interface Point (Tr.Loss-3.222 %)			**6.7204**

Based on the above assumption, the power purchase cost for the purchase of 42.19 MU by MSZE from MESCOM Interface points, at Rs.6.7204 per unit works out to Rs.28.35 Crores for FY18. Therefore, the MSEZ is required to pay the difference in the power purchase cost to MESCOM for FY18. Thus, the Commission decides to approve the power purchase of 42.19 MU at IF points at a cost of Rs.28.35 Crores as per APR for FY18.

1.2.4 RPO Compliance:

The Commission in its preliminary observation, had directed MSEZL to furnish the status of solar and non-solar RPO compliance for FY18 and also the estimates of RPO to be met in FY20-22 and the plan of action to meet the same.

MSEZL in its replies has stated that as per the prevailing RPO Regulations any deemed licensee procuring bulk power supply, partly or wholly, from ESCOMs is deemed to have complied with RPO to the extent of such procurement from ESCOMs if such ESCOM have complied with the RPO and therefore, a standalone compliance is not required.

The Commission notes that, the Regulations also specify that in case of non-compliance, the onus of meeting the RPO lies with the deemed licensees, as well.

The Commission further, notes that MESCOM from whom MSEZ is procuring power, has met both the Solar & Non-Solar RPO and therefore, MSEZ is deemed to have met both Solar & Non-Solar RPO for FY18.

1.2.5 Operation and Maintenance Expenses:

MSEZ in its application has claimed Rs.0.41 Crores, Rs.0.70 Crores and Rs.0.24 Crores towards employee cost, R&M expenses and A&G expenses for FY18.

MSEZL submitted that, the O&M expenses comprises of the following expenses:

i. R&M includes expenses like GSS outsourced manpower cost, consumables, testing charges, servicing of electrical instruments, KPTCL & CEIG statutory charges, inspection charges and etc.

ii. A&G expense includes expenses line insurance premium on fixed assets of GSS, professional and technical fess, KERC annual license fee, printing and advertisement charges and etc.

iii. Employee Cost includes the share of direct employee cost and shared Corporate Service Employee cost.

MSEZL in its application, has further submitted that, while determining the O&M costs has adopted the approach as specified by the Commission in its Tariff Order dated 8th May, 2017. MSEZL has considered FY17 as the base year, weighted inflation index of 8.1059% and consumer growth rate at CAGR of 25.99%, considering 100% increase in number of installations in FY 18 as compared to FY 17, to arrive at the O&M expenses for FY18. Thus the O & M Expenses based on the above approach claimed by MSEZL is indicated below:

TABLE – 1.4

O&M expenses for FY18 – MSEZL Submission

Particulars	FY 16	FY 17	FY 18
No. of installations	9	9	19
Consumer Growth rate-CAGR	-	-	25.99%
Weighted inflation index		7.71%	8.1059%
Base year O&M cost – Rs. in Cr.	1.13	1.22	-
O&M expenses – Rs. in Crore	-	-	**1.3445**

The Commission notes that, as per the bifurcated audited accounts of the license activity, the MSEZL has incurred O&M expenses of Rs.1.35 Crore for FY 18 as against the approved value of Rs.1.30 Crore. MSEZL has requested the Commission to allow the actual O&M expense of Rs.1.35 Crore for FY 18.

The Commission in its Tariff Order dated 08th May, 2017 had approved O&M expenses of Rs.1.30 Crores for FY18. The Commission notes that, the overall O&M expenses consist of R&M expenses, employee cost and A&G expenses. In accordance with the provisions of MYT Regulations and the methodology adopted while approving the O&M expenses for the earlier control period, the Commission proceeds with the determination of normative O&M expenses based on the 12 Year data of WPI and CPI. Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI), as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by the CERC with CPI and WPI in a ratio of 80:20, the allowable annual escalation rate of inflation for FY18 is computed as follows:

TABLE – 1.5

Computation of Inflation Rate for FY18

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2006	70.2	122.9	112.36				
2007	73.6	130.8	119.36	1.06	0.06	1	0.06
2008	80.0	141.7	129.36	1.15	0.14	2	0.28
2009	81.9	157.1	142.06	1.26	0.23	3	0.70
2010	89.7	175.9	158.66	1.41	0.35	4	1.38
2011	98.2	191.5	172.84	1.54	0.43	5	2.15
2012	105.7	209.3	188.58	1.68	0.52	6	3.11
2013	111.1	232.2	207.98	1.85	0.62	7	4.31
2014	114.8	246.9	220.48	1.96	0.67	8	5.39

2015	110.3	261.4	231.20	2.06	0.72	9	6.49
2016	110.3	274.3	241.50	2.15	0.77	10	7.65
2017	114.1	281.2	247.78	2.21	0.79	11	8.70
A= Sum of the product column							40.23
B= 6 Times of A							241.40
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0828
e=Annual Escalation Rate (%)=g*100							**8.2760**

While determining the normative O & M expenses for FY18, the Commission has considered the following aspects:

a) The actual O & M expenses of the base year as per the audited accounts for FY16.

b) The three year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per the audited accounts up to FY18 at 28.28%.

c) The weighted inflation index (WII) at 8.2760% as computed above.

d) Efficiency factor at 0.5% as considered in the earlier control periods.

Thus, the normative O&M expenses for FY18 will be as follows:

TABLE-1.6
Normative O&M Expenses for FY18

Particulars	FY16	FY17	FY18
No. of Installations	9	9	19
Consumer growth index based on 3 year CAGR of Consumers in %.			28.28%
Inflation index in %			8.2760%
Base year O&M expenses (Projected as per the actual O&M expenses of FY16 of Rs.1.13 Crores).		1.22	
O&M Index= 0&M (t-1)*(1+WII-X)		1.22	1.65
Allowable O&M expenses			**1.65**
Actual O&M expenses for FY18			1.35
As claimed by MSEZL and Allowed by the Commission			**1.35**

Thus, the O & M expenses computed as above works out to Rs.1.65 Crores for FY18 as against the actual O&M expenses of Rs.1.35 Crores for FY18 incurred by the MSEZ and has requested the Commission to consider the same as against the approved O&M expenses of Rs.1.30 Crores for FY18.

The Commission is of the view of that, as per the MYT Regulations, the O&M expenses are controllable expenses and expects from every distribution licensee including the deemed distribution licensee to minimize the O&M expenses. Since the normative O&M expenses of Rs.1.65 Cores computed as above are more than the actual O&M expenses of Rs.1.35 Crores by Rs.0.30 Crores, which is mainly due to higher consumer growth rate of 28.28% on account of addition of nine number of consumers to the number of consumers existing at the beginning of the FY15.

In view of above facts and by considering the MSEZL's request to allow the actual O&M expenses of Rs.1.35 Crores, the Commission decides to approve the actual O&M expenses of Rs.1.35 Crores in the APR for FY18.

1.2.6 Depreciation:

MSEZL has claimed an amount of Rs.2.73 Crores as depreciation for FY18. The computation of depreciation of Rs.2.73 Crore by MSEZL is indicated in the following table:

TABLE -1.7

Depreciation for FY18 - MSEZL's submission

Amount in Rs. Crores

Particulars	Opening Balance of GFA as on 01.04.2017	Closing Balance of GFA as on 31.03.2018	Depreciation
Lease hold assets	6.17	6.17	-
Licensed Activity Building- Housing the Grid Substation	2.84	2.84	0.09
Towers, Poles, fixture, overhead conductors, UG cables and devices-Package 2	33.89	33.93	1.61

Particulars	Opening Balance of GFA as on 01.04.2017	Closing Balance of GFA as on 31.03.2018	Depreciation
Plant and Machinery Substation Transformers, Circuit breakers, other fixed apparatus of rating 100 MVA and below	21.18	21.27	1.00
Civil	0.87	0.87	0.03
Computers and Other items	0.07	0.07	-
Total	**65.02**	**65.15**	**2.73**

The Commission has taken note of the opening and closing balance of GFA and the amount of depreciation charged on such assets as per the bifurcated audited accounts of MSEZL's license activity and the data furnished as per format D-8 and D-15 for FY18.

The Commission, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, has computed the allowable depreciation for FY18 as follows:

TABLE – 1.8
Allowable Depreciation for FY18

Rs. Crores

Particulars	Opening Balance of GFA as on 01.04.2017	Closing Balance of GFA as on 31.03.2019	Depreciation
Building	2.84	2.84	0.09
Civil Works	0.87	0.87	0.03
Plant & Machinery	21.29	21.29	1.00
Lines, Cable network	33.89	33.89	1.61
Furniture	0.05	0.05	0.00
Office Equipment	0.02	0.02	0.00
Total	**58.97**	**58.97**	**2.73**

The allowable depreciation based on the rates of depreciation as per the prevailing Regulations works out to Rs.2.73 Crores. And **thus, the Commission decides to allow depreciation of Rs. 2.73 Crores for FY18.**

1.2.7 Interest on Capital loan:

MSEZL in its application, has claimed an amount of Rs.2.25 Crores towards interest on capital loans and Rs.1.18 Crores towards interest on normative loan as per the provisions of MYT Regulations for FY18. The Commission, in its Tariff Order dated 08th May, 2017 and in the Order No. RP08/2017 dated 26th October, 2017, had approved the interest on capital loans at Rs.3.67 Crores for FY18. MSEZL has submitted that the actual interest on capital loan is Rs.2.25 Crores for FY18. Further, MSEZL has also claimed the normative interest for the equity in excess of 30% of GFA of Rs. 1.18 Crores for FY18. Thus, the MSEZL has claimed the total interest of Rs. 3.43 Crores for FY18 by considering the following:

a) The interest on loan capital computed based on the weighted average rate of interest for FY 18 i.e. 9% p.a.
b) The quantitative details are based on the MSEZL audited annual accounts for FY18.
c) The loan outstanding is based on average of opening and closing loan balances of the licensed activities. The average loan balance for FY18 works out to Rs.25.01 Crores.
d) No fresh/new loans are considered for licensed activity in FY18.

The Commission has taken note of the balance amount of capital loan, repayments and new loan availed, if any, as per the details furnished by the MSEZL in Format D-9 of the application and as per the bifurcated audited accounts of MSEZL's license activity for FY18. The Commission notes that the actual weighted average rate of interest works out to 9%.

The Commission has worked out the allowable interest on the average capital loan for FY18, duly considering the opening and closing balance of loans and repayment thereon as per the audited accounts of MSEZL, as shown in the following table:

TABLE-1.9
Allowable Interest on Capital Loan for FY18

Rs. Crores

Particulars	FY18
Long term secured & unsecured loans	25.15
Add: new Loans	0.00
Less :Repayments	(-)0.28
Total loan at the end of the year	24.87
Average Loan	25.01
Interest Rate allowed in %	9.00%
Interest Allowed	**2.25**

In addition to the above the Commission has allowed the normative interest for the excess equity over 30% of GFA at the interest rate of 9% for Rs. 1.04 Crores for FY18, as per the provisions of MYT Regulations, as detailed below:

TABLE-1.10
Allowable Normative Interest on excess equity for FY18

Rs.in Crores

Particulars	FY18
Opening balance of GFA	65.03
30% of GFA(Eligible for allowance of RoE	19.51
Opening balance of Equity	31.08
Equity in excess of 30% of GFA (3-2)	11.57
Allowable interest in %	9.00%
Allowable normative interest	**1.04**

Thus, the Commission decides to approve the total interest on loan of Rs. 3.29 Crores for FY18.

1.2.8 Interest on Working Capital:

MSEZL in its application has claimed an amount of Rs.0.70 Crores towards normative interest on working capital for its licensed activity at the rate of 12 % per annum in the APR for FY18. The Commission, in its Tariff Order dated 08th May, 2017 has allowed Rs.1.15 Crores as interest on working capital for FY18.

The Commission notes that, as per the bifurcated audited accounts of the license activity, MSEZL has not availed any working capital and incurred interest thereon during FY18.

The Commission also notes that, the present interest rates charged by commercial banks and financial institutions are dependent mainly on Marginal Cost of Fund Based Lending Rates (MCLR). These rates are comparatively lower than the base rates considered earlier. Further, in view of the changing economic situation, it is observed that there is a considerable reduction in the MCLR and also downward trend is evident in the interest rates. Hence, in such a situation, the Commission is of the view that, the MSEZ can avail working capital loans at competitive interest rates, which would be less than the proposed rates of 12%. The Commission notes that, the present SBI MCLR rate for short-term loans with tenure of one years is 8.55%. Considering the present MCLR, the Commission decides to allow an interest rate of 11.00% for FY20 for Working Capital loans.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereto, the Commission has computed the normative allowable interest on working capital for FY18 as follows:

TABLE – 1.11
Allowable Interest on Working Capital for FY18

Rs. Crores

Particulars	FY 18
One-twelfth of O&M Expenses.	0.14
Opening balance of GFA as per Audited Accounts	65.03
Stores, materials and supplies 1% of Opening balance of GFA	0.65
One-sixth of the Revenue	5.14
Total Working Capital	**5.93**
Actual working capital interest as per audited accounts	0.00
Allowable Rate of Interest (% p.a.)	11.00%
Normative Interest on Working Capital allowable as per MYT norms	**0.65**
Allowable Interest on working capital	**0.33**

Thus, the Commission decides to approve the interest on working capita loan of Rs. 0.33 Crores for FY18.

1.2.9 Interest on Consumers' Security Deposits:

MSEZL in its application has claimed an amount of Rs.0.26 Crores towards payment of interest on consumers' security deposits for FY18 at the interest rate of 6.75% p.a.

The Commission has considered the opening and closing balance of consumers' security deposits as per the bifurcated audited accounts of MSEZL for FY18. As per the KERC (Interest on Consumers' Security Deposit) Regulations, 2005 the interest on consumer deposits shall be allowed as per the bank rate prevailing as on the 1st of April of the relevant year. Considering, the bank rate 6.75% as on 1st April, 2017, the allowable interest on consumers' security deposits for FY18 is computed as follows:

TABLE – 1.12
Allowable Interest on Consumers' Security Deposits for FY18

Amount in Rs. Crores

Particulars	FY18
Opening Balance of Consumers' Security Deposits	3.74
Addition of deposits	0.32
Closing Balance of Consumers' Security Deposits	4.06
Allowable Bank Rate of Interest in %	6.75%
Approved Interest on Consumers' Security Deposits	0.26

Thus, the Commission decides to approve interest on consumers' security deposits of Rs. 0.26 Crores for FY18.

The abstract of approved interest and finance charges for FY18 are as follows:

TABLE – 1.13

Allowable Interest and Finance Charges

Rs. Crores

Particulars	FY18
Interest on Loan capital	3.29
Interest on working capital	0.33
Interest on consumers security deposits;	0.26
Total interest and finance charges	**3.88**

1.2.10 Return on Equity:

MSEZL in its application has claimed Return on Equity of Rs.3.03 Crores for FY18 as detailed below:

TABLE –1.14
Return on Equity for FY18 – MSEZL's Submission

Rs. Crores

Particulars	Amount Rs. in Cr
The actual equity share capital as on 31.03.2018 is	35.550
Equity Share Capital as per KERC norms – GFA as at 31.03.2018 is Rs.65.16 Crore * 30%, normative equity	19.548
RoE @ 15.5%	**3.030**

The Commission in its Order No.RP08/2017 dated 26thOctober, 2017, while approving the ARR for FY18, has computed the return on equity at 15.50% by considering the equity at 30% of the opening balance of GFA and has allowed RoE of Rs. 3.02 Crores for FY18. As per the bifurcated audited balance sheet of MSEZL for FY18, the opening share capital for the licensed business is Rs.35.55 Crores and the accumulated deficit is Rs.4.47 Crores. The net opening equity for FY18 is Rs.31.08 Crores. However the normative allowable equity based on the 30% of the opening balance of GFA of Rs. 19.51 Crores is less than he actual net equity of Rs.31.08 Crores.

Accordingly, as per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereto, the Commission decides to consider the 30% of the opening GFA for Rs. 19.51 Crores as the normative equity for computation of return on equity for FY18 as indicated in the following table:

TABLE –1.15

Allowable Return on Equity

Rs. Crores

Particulars	FY18
Opening balance of Share Capital	35.55
Opening balance of accumulated deficit under Reserves and Surplus	-4.47
Opening balance of Net Equity	31.08
Normative Equity at 30% of the opening GFA	19.51
Return on equity at 15.50%	**3.024**

Thus, the Commission decides to allow Return on Equity of Rs.3.024 Crores for FY18.

1.2.11 Income Tax:

MSEZL in its filing has not claimed the income tax/MAT for FY18. The Commission notes that, the MSEZL being a SEZ developer is enjoying tax holiday under the Section 80.1AB of the Income Tax Act, and has not claimed any tax for FY18. Thus the Commission decides not to allow any amount of income tax /MAT for FY18.

1.2.12 Other Income:

MSEZL, in its application as per the bifurcated audited accounts of the licensed activity, has claimed an amount of Rs.0.36 Crores, as other income for FY18.

The Commission decides to allow an amount of Rs.0.36 Crores as other income for FY18.

1.3 Abstract of Approved ARR for FY18:

As per the above item-wise decisions of the Commission, the consolidated approved ARR for FY18 is as follows:

TABLE –1.16
Abstract of Approved ARR for FY18

Rs. In Crores

Particulars	As Approved in T.O dated 11.04.2017 & As per RP No.08/2017 dated 26.10.2017	As per filing dated 29.11.2018	As per APR
Power Purchase (MU)	88.40		43.59
Energy @ IF Point in MU	85.33	42.19	42.19
Sales (MU)	84.60	41.80	41.80
Distribution Loss in %	0.86%	0.93%	0.93%
Revenue:			
Revenue From Sale of Power	58.42	34.76	34.76
Expenditure:			
Power Purchase Cost	49.49	25.55	28.35
Employee Expenses		0.41	
R&M Expenses		0.70	
A&G Expenses	1.30	0.24	1.35
Depreciation	2.73	2.73	2.73
Interest on Loan Capital	3.67	3.43	3.29
Interest on Working Capital	1.15	0.70	0.33
Interest on Consumer security Deposits	0.25	0.26	0.26
RoE	3.02	3.03	3.02
Income Taxes	0.00	0.00	0.00
Less: Other Income	-0.26	-0.36	-0.36
Add: Carry forward Gap in revenue of FY16	0.98	0.00	0.00
Total ARR	**62.33**	**36.70**	**38.98**
Gap in Revenue	-3.91	-1.94	-4.22
Additional Revenue allowed as per the Order in RP 08/2017 dated 26.10.2017.	3.91	0.00	0.00
Revenue Gap absorbed by MSEZL		**1.80**	**1.80**
Net ARR	**62.33**	**34.90**	**37.18**

1.4 Gap in Revenue for FY18:

As against an approved ARR of Rs.62.33 Crores, the Commission after the Annual Performance Review (APR) of MSEZL for FY18 decides to allow the total ARR of Rs.38.98 Crores for FY18. Considering the revenue from sale of power of Rs.34.76 Crores, the gap in revenue is determined at Rs 4.22 Crores for FY18.

MSEZL in its application has submitted that, its Management has decided to absorb an amount of Rs.1.80 Crores of the gap in revenue for FY18. The Commission takes note of the above decision of the Management and decides to consider the same and the remaining gap works out to Rs.2.42 Crores, as the net revenue deficit for FY18. The Commission decides to carry forward the same to the ARR of FY 20.