No.B/14/14

BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION, BENGALURU

Dated 3rd March, 2015

Present:

1. Sri M.R. Sreenivasa Murthy - Chairman
2. Sri H.D.Arun Kumar - Member
3. Sri D.B.Manival Raju - Member

ORDER

In the matter of determination of ARR & Distribution Tariff in respect of Mangalore SEZ

1. Background:

Mangalore Special Economic Zone Ltd., (hereinafter referred to as MSEZ) is a company incorporated in February, 2006, under the Companies Act, 1956. In terms of KERC Tariff Regulations and the MYT Regulations, MSEZ has filed this application for determination of Distribution and retail supply Tarff for FY15 and FY16.

In exercise of the powers conferred under Sections 62, 64 and 86 of the Electricity Act, 2003, read with KERC (Terms and Conditions for determination of Tariff for Distribution and Retail Sale of Electricity) Regulations 2006 and other enabling Regulations, the Commission has considered the application of MSEZ. The views and objections of the Consumers and other stakeholders have been obtained. The Commission's analysis of the proposals and the decisions thereon, are discussed in subsequent paragraphs of this Order.

2. Licensees Profile:

Mangalore Special Economic Zone Ltd.was incorporated in February, 2006 under the Companies Act, 1956, having its registered office at, Infantry Road, Bengaluru - 560001. MSEZ is a Special Purpose Vehicle (SPV) co-promoted by Oil and Natural Gas Corporation Ltd (ONGC), Infrastructure Leasing & Financial Services Ltd (IL&FS), Karnataka Industrial Areas Development Board (KIADB) and Kanara Chamber of Commerce and Industries (KCCI) and others. The Company is implementing a Sector Specific Special Economic Zone (SEZ) in Phase-I for Petroleum and Petrochemical Sector. MSEZ is located in Mangalore, Dakshina Kannada District.The Company's objective is to develop industrial land complete with provision of providing infrastructure facilities, and services to the utilities in the entire SEZ area, which include water, waste management, telecommunication, distribution and retail supply of power.

MSEZ Network:

The power supply to MSEZ is sourced from the IF point of the 110 KV lines emanated from 220/110 KV sub station of KPTCL at MSEZ, which is connected to 220 KV line between Kemar and Kavoor by LILO arrangement. This line is integrated to the grid network of KPTCL and further to the southern grid of India. 220KV line of KPTCL is passing through the MSEZ area and a 220/110KV Substation is being constructed by KPTCL for which 13.939 acres of land within the MSEZ area is leased to KPTCL.

Four numbers of 110KV bays are allotted to MSEZ out of which two numbers of bays are utilized at present. MSEZ has laid twin circuits of lead sheathed underground cable of 110KV 400 sq. mm. copper from 220KV MRSS to 110KV Grid Substation (GSS-03) built by MSEZ. The total route length of the twin circuits is 1.9 KMS. Each circuit can take a load of 80MVA power from the two 110KV bays at MRSS. MSEZ has constructed 110/33/11KV Grid Substation to cater to the power requirement of the customers in MSEZ. The Grid substation can deliver up to 40MVA of power at 11KV and 33KV voltage level and with augmentation it can go upto 80MVA capacity, for which twin circuits are already laid.

MSEZ commenced its operations in January 2014. As on 31st March, 2014, the Company was providing power supply to six consumers at different voltage levels. The consumer profile as at the end of March, 2014, is shown hereunder:

Consumer Profile:

Sl. No	Name of the consumer	Voltage class	Type of the consumer	Sanctioned load
1	ONGC Mangalore Petrochemicals Ltd	33KV	Petrochemical	4.2 MVA
2	Indian Strategic Petroleum Reservoir Ltd	33KV	Petroleum Storage	0.86MVA
3	Cardolite Speciality Ltd	33KV	Industrial	0.42MVA
4	JBF Petrochemicals Ltd	11KV	Temporary	0.01MVA
5	10ML Water Reservoir	11KV	Water storage	0.004MVA
6	MSEZ Other units	11 KV	Industrial	0.0085MVA
	Total Sanctioned Load			**5.6 MVA**

MSEZ as a licensee:

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

3. Background for filing the Tariff application:

a) In July, 2012, the MSEZ approached the Commission, requesting for according the status of a Distribution Licensee to enable it to file all the necessary documents along with ARR and ERC applications. In September, 2012, the Commission, duly treating the MSEZ as a deemed licensee, directed the MSEZ to remit necessary fee of Rs.10 Lakhs per year from the date of notification i.e. 03.03.2010, as per the KERC (Fees) Regulations, 2004 and to file its application for approval of ERC and determination of Tariff. In October 2012,the MSEZ informed the Commission that it is in the process of developing the infrastructure for distribution of power and was not able to submit ERC and Tariff application with exact figures. Therefore requested that the of filing for ERC and determination of tariff be deferred for one year.

4. Filing of ERC and Tariff applications:

The MSEZ has filed an application on 28th November, 2014 and requested for:

1. Condoning the delay in submission of the ARR/ERC application and Tariff Petition for FY14 and FY15 and considering the Annual Revenue Requirement (ARR) for respective years.
2. Consideration of the Business Plan of MSEZ covered in Chapter-5 to Chapter -10 of the document for the years FY14 to FY18 as detailed.
3. Consideration of the ARR for FY16.
4. Consideration of tariff structure/ proposal detailed in the Chapter-14, for approving tariff proposed in this Tariff Application, and
5. Issuing appropriate orders on the application made by MSEZ.

5. Acceptance of Applications and Process consultations:

The Commission, vide its letter dated 30th December, 2014, has informed the MSEZ that, its application filed on 27.11.2014, for approval of ARR for determination of retail supply tariff in the Mangalore SEZ area is treated as a petition in terms of the Tariff Regulations, subject to further verification and validation and was requested to publish a summary of the application in local newspapers in the distribution area of MSEZ. Accordingly the MSEZ has published the summary of application on 4th and 5th of January, 2015, in the Deccan

Herald, The New Indian Express, Prajavani and Kannada Prabha. The Commission published a Notice of Public hearing on 21st January, 2015, in the Deccan Herald and Vijayavani fixing the date of public hearing as 10th February, 2015.

5.1 The Commission has held a public hearing on 10th February, 2015, at DC Office, Mangaluru to elicit the views of the general public/ stakeholders. The details of written and oral objections, the response of MSEZ and the Commission's views thereon are as under:

In the written submissions as well as during the public hearing some of the Stake-holders and public have raised objections on the Tariff Application filed by MSEZ. The names of the persons who have filed written objections are given below:

List of persons who filed written objections:

Sl. No	***Application No.***	***Name & Address of Objectors***
1	MS-01	Chief Financial Officer, ONGC Mangalore Petro Chemicals Ltd., Mangaluru
2	MS-02	Cardolite Speciality Chemicals India LLP, Mangalore SEZ, Mangaluru
3	MS-03	Sri D. Subramanya Bhat, Bantwal Tq, D K district

List of the persons who made oral submissions during the Public Hearing on 10.02.2015.

Sl. No	***Name & Address of Objectors***
1	Abdul Rehman Musba, Head Finance, Cardiolite Specialty Chemicals India LLP
2	Sushil Shenoy, Chief Financial Officer, ONGC, MPCL
3	Managing Director, MESCOM.

The following are the major objections and comments received on various issues relating to MSEZ's tariff application and the response of MSEZ:-

5.2 Written Objections:

(1) ONGC, a HT Consumer of MSEZ having sanctioned Load of 10 MVA, has objected to the tariff petition filed by MSEZ, stating that, of the three alternate rates proposed at Rs.9.18/unit, Rs.7.24/unit and Rs.5.70/ unit, the first two rates are unviable as they are more than the tariff for HT-2(a) category of MESCOM.

MSEZ's RESPONSE:

MSEZ has initiated many proactive steps to ensure that, the power is supplied at a competitive rate to the units such that, it does not place them at disparity with similar industries in MESCOM area.

(2) The rate of Rs.5.70/unit would be reasonable as it includes pooled purchase cost and administrative cost.

MSEZ's RESPONSE:

MSEZ has addressed a letter to MD, MESCOM requesting to propose a separate category and an economically feasible tariff for MSEZ in the ARR for FY16.

(3) Cardolite Specialty Chemicals India LLP, Mangalore SEZ, Mangalore has stated that MSEZ has proposed tariff on 3 parameters – The first proposal is to fix tariff at landed cost of Rs.9.18 per unit. This is detrimental to industries which have to compete globally. It may result in increase in the manufacturing cost of products. The second proposal of SEZ to fix tariff of Rs.7.24/unit is high compared to HT-2(a) tariff of MESCOM and is unviable for industries. The 3rd proposal is to fix tariff at pooled cost of MESCOM at Rs.5.70 /unit. This tariff would be proper as SEZ is a bulk consumer of MESCOM and is a distribution licensee.

MSEZ'S RESPONSE:

MESCOM has agreed to change the tariff from HT-5 category (temporary power supply) to HT2 (a) and MSEZ is collecting the charges on back to back basis. MSEZ has requested for a separate tariff as the HT2 (a) tariff plus the distribution and retail supply cost would be detrimental to the consumers of MSEZ.

(4) Sri D. Subramanya Bhat has stated that the application filed by SEZ as deemed licensee under proviso to section 14(b) of the Electricity Act, 2003 is not maintainable as it is not exempted from obtaining a license under the Electricity Act, 2003 and in the light of the decision of Hon'ble Supreme Court in M/s SESA Sterlite Limited, Vs. Orissa Electricity Regulatory Commission and others reported in 2014 (8) SCC 444 and the Hon'ble ATE in Appeal No.206/2012.

The applicant has not obtained distribution license from the Commission and cannot therefore, sell electricity to consumers. Since, the Commission has not specified any Conditions of license for SEZ, the supply of electricity to SEZ under HT industrial tariff for resale to other consumers does not arise. The applicant has not entered into PPA with MESCOM or any other supplier for purchase of power and the power purchase cost is not reliable.

MESCOM supplying power to SEZ will amount to trading of Electricity Act, for which MESCOM has to pay license fee for trading under Regulation No. 6 of the KERC (Fee) Regulations, 2004 and 4.2 of KERC(Eligibility conditions and Duties of Electricity Trader) Regulations, 2004.

The application filed by SEZ has not mentioned about the RPO obligation to be fulfilled.

The area covered by SEZ is also covered by MESCOM and in such cases where two distribution licensees operate in an area, the Commission has to fix only maximum ceiling of tariff for retail sale, under Section 62(1) (d) of the Electricity Act, 2003.

The proposal of SEZ that MESCOM has to meet its revenue gap of Rs.9.06 Crores in FY15 and FY16 is illegal as the gap due to capital cost incurred by SEZ in developing the network in its area cannot be passed on to MESCOM.

MSEZ's RESPONSE:

The decision of the Hon'ble Supreme Court is in favour of MSEZ in so far as the maintainability of the application is concerned.

All SEZs are exempted from obtaining license under Section 14 of the Electricity Act. However, to claim a right to distribute electricity, the distribution entity must show that it has created the infrastructure to distribute power to various consumers. The Applicant is a multi-unit SEZ and has to distribute electricity to its consumers. In that view of the matter, the judgment of the Supreme Court supports the MSEZ. In the case cited by the objector, the SEZ was a single unit SEZ utilizing power for its use, whereas MSEZ is a multi unit SEZ which distributes power to its consumers. The MSEZ will enter into agreement for purchase of power as per the tariff fixed by the Commission. As the present application is for fixation of tariff, the concept of trading in electricity does not arise.

Regarding RPO compliance, MSEZ has stated that, the Regulations specifying RPO is not applicable to it.

Section 62(i) (d) has no application as the present transaction does not involve actual sale of power by two distribution utilities to third parties. The area for distribution is within the SEZ and the SEZ alone can distribute power in the area. Hence, there is no question of two utilities supplying power within the SEZ.

MSEZ has projected a gap at Rs.9.46 Crores considering the expenses viz., O&M cost, Employee Cost, Administrative & General Expenses, Interest & Finance Charges, Depreciation and RoE. MSEZ has established the distribution network to distribute power to its consumers. As mentioned in page 112 of ARR, if these costs of MSEZ are not realized, it would leave the licensee at a great financial distress and make it financially unsustainable.

5.3 PUBLIC HEARING ISSUES:

The following issues were raised by the stakeholders during the public hearing:

(1) MSEZ is taking power of 80 MU (average) from MESCOM at 110 kV, thereby reducing distribution loss and the infrastructure is created by MSEZ. for distribution of power to its consumers and therefore, a separate tariff has to be fixed considering the said aspects.

(2) The consumers of MSEZ require reliable supply of power at reasonable price and the supply price at interface point would be viable.

(3) MD, MESCOM opined that the tariff for SEZ should be fixed at the power purchase cost plus surcharge.

Commission's Views:

Regarding Maintainability of Application:

As per the Notification dated 3rd March, 2010 of Ministry of Commerce, Government of India, the MSEZ is a deemed licensee and the application filed before this Commission for determination of Tariff, is maintainable. The case law of Sesa Sterlite Ltd., cited by the objector relates to single unit SEZ without any other consumers and the appellant therein had no occasion to establish a distribution network. Hence the case law is not applicable to MSEZ.

Regarding RPO Compliance:

As the power is being purchased from MESCOM which has complied with the RPO, compliance of RPO by MSEZ separately does not arise.

Commission's Views on the Issues hearing during Public hearing:

The Commission has taken note of the issues raised during the public hearing.

Regarding fixing a reasonable tariff:

The Commission has taken note of the objections raised by various stakeholders and members of the public on matters relating to the determination of tariff and related issues.

6. Summary of ERC & Tariff Application:

(a) A summary of the tariff application filed before the Commission, is as under:

(Rs. in Crs.)

SL. No.	PARTICULARS	FY 14	FY 15	FY16
		Actuals	**Projected**	**Projected**
1	Power purchase (mu)	1.38	26.04	80.84
2	Energy available at interface points (mu)	1.38	26.04	80.84
3	Energy sold (mu)	1.36	25.34	78.49
4	Distribution loss (%)	1.63%	2.68%	2.90%
5	**Income**			
6	Revenue from sale of power	1.61	29.16	72.05
7	Rev subsidies & grants	0.01	0.02	0.02
8	other income	0.02	0.06	0.19
9	**Total**	**1.64**	**29.24**	**72.27**
10	**Expenditure**			
11	Power Purchase	1.60	19.70	57.00
12	Repairs & maintenance	0.25	0.47	0.63
13	Employees costs	0.11	0.40	0.42
14	Admn. & General expenses	0.30	0.84	0.71
15	Depreciation and related debits	0.15	1.30	2.56
16	Interest & Finance charges	0.73	4.04	6.04
17	**Sub-total**	**3.13**	**26.76**	**67.35**
18	less: expenses capitalised:			
19	Interest & finance charges capitalised	0.67	1.98	0.84

20	Other expenses capitalised	0.65	-	
21	**Sub-total**	**1.32**	**24.78**	**66.51**
22	other debits (incl. bad debts)	-	-	
23	Extraordinary items	-	-	
24	**Total Expenditure**	**1.81**	**24.78**	**66.51**
25	Profit (loss) before tax	(0.17)	4.46	5.76
26	Provision for taxes	-	-	-
27	Profit (loss) after tax	(0.17)	4.46	5.76
28	Net prior period debits/credits			
29	Return on equity	**0.94**	**4.46**	**5.76**
30	**GAP**	(1.11)	-	-

(b) It is stated by MSEZ that, this is their first application before the Commission. On the Revenue Gap in the P&L Account it has submitted that for FY14 the gap of Rs.1.11 Crs. would be absorbed by the management, without passing on the same to its consumers, as the company began its operations as a distribution licensee from January 2014 and the size of its operations in terms of sales and numbers of consumers were on a small scale.

(c) **Revenue gap for the year FY15**: MSEZ has indicated a revenue gap of Rs.9.46 Crores for FY15 and considering the power purchase cost payable to MESCOM and other costs being incurred by MSEZ, the cost per unit (including RoE) is worked out to Rs.11.50 per unit. It has further submitted that, so far the company has been billing its consumers on the basis of power purchase cost only, since adding further costs such as O&M, depreciation, interest and RoE would heavily burden its consumers and place them at a disadvantage compared to similarly placed HT consumers in the State of Karnataka. In case these costs of MSEZ as a licensee are not realized it would leave the licensee at great financial distress and make it financially unsustainable. The solution to this conundrum lies in changing suitably the power procurement costs. Hence, MSEZ, as a distribution licensee has requested the Commission to address this issue of the gap of Rs.9.46 Crores of FY15, while approving the ARR for FY16, so that the gap of Rs.9.46 Crore can be adjusted in the power procurement bill from MESCOM.

Based on the projected ARR and the cost per unit as worked out by MSEZ. The cost per unit during FY16 is worked out as under:

Cost stack up for FY 16	
Particulars	**Rs. Per/Kwh**
Power Purchase	7.26
R&M	0.08
Employees cost	0.05
A&G	0.09
Depreciation	0.33
Int. finance charges	0.66
RoE	0.73
Cost/Kwh	**9.21**
Revenue projection for FY 16	
Particulars	**Per/Kwh**
From sales of power	9.18
Other income	0.03
Revenue/Kwh	**9.21**

7. Treatment of previous year's Gap by the Commission:

The Commission has reviewed the tariff application filed by the MSEZ. As far as the gap of FY14 is concerned, the MSEZ is allowed to absorb the revenue gap as offered by it. As regards the Revenue gap of Rs.9.24 Crores for FY15, the Commission is unable to validate the figures of FY15, in the absence of the audited figures of its expenditure as the year FY15 is not yet complete. Hence, the Commission would examine the same based on the audited Accounts for FY15 during the review of the APR for FY15.

8. ARR & Tariff Proposal for FY16:

a) For FY16, the MSEZ has proposed a tariff of Rs.9.18 per unit on the basis of the following ARR:

Particulars	Amount in Rs. Crores	Cost Per unit Rs.
Power purchase (MU)	80.84	
Energy available at interface points (MU)	80.84	
Energy sold (MU)	78.49	
Distribution loss (%)	2.90%	
Power Purchase	57.00	7.26
Repairs & maintenance	0.63	0.08
Employees costs	0.42	0.07
Admn. & General expenses	0.71	0.09
Depreciation and related debits	2.56	0.33
Interest & Finance charges	6.04	0.77
Less expenses Capitalised	-1.32	-0.17
Return on equity	5.76	0.73
Total ARR	71.80	9.17
Less Other Income	-0.19	-0.02
Net ARR & Cost per Unit	**71.61**	**9.14**

MSEZ has proposed a revenue recovery of Rs. 9.18 per unit for FY16 without explaining the difference of Rs 0.04 between the proposed tariff and the cost per unit as per the proposed ARR. Based on the above it has proposed the tariff structure for its HT and Construction consumers, as follows:

Consumer Category	No. of Consumers	Fixed Cost	Energy charges Rs./kwh	Total Revenue Rs. In Crs.
HT Industrial	8	Rs.200/kVA	8.72	65.42
HT Construction	1	Rs.240/kVA	10.00	6.64
Total			9.18	72.05

9. Analysis of the ARR for FY16:

i) Power purchase Cost:

The MSEZ has proposed procurement of 80.84 MU of energy during FY16. Deducting a distribution loss of 2.9%, the total sales to its consumers are proposed to be 78.49 MU. The entire energy is proposed to be procured from the MESCOM for the present. The cost of Power Purchase is indicated as Rs.57 Crores which works out to Rs.7.26 paise per unit.

During the public hearing, the consumers of MSEZ have stated that the rate of Rs.9.18/unit or Rs.7.26/unit proposed by MSEZ is unviable as it is more than the tariff for HT-2(a) category of MESCOM. It was suggested that a rate of Rs.5.70/unit would be reasonable as it includes the pooled power purchase cost and the administrative cost of MSEZ.

The Managing Director MESCOM, during the public hearing has agreed to supply power to MSEZ at the marginal cost of power considering 5% energy at the margin of the total MESCOM power purchase. In its letter dated 28.02.2015, MESCOM has proposed a rate of Rs.5.60/unit which includes transmission charges and trading margin of 7 paise/unit

The Commission notes that the rates of power purchase as considered by MESCOM are relatively high as compared to the approved rates for FY16. Therefore, the Commission decides to adopt the rates applicable to the generators falling within the 5% energy at the margin of the total MESCOM's power purchases for FY16.

The marginal cost of power for MESCOM cost is arrived at by considering the energy of 5% of MESCOM's total power Purchase of 5287 MU at the Generation Bus, for FY16. For computing the total power purchase of MSEZ, 95% of the 5% energy at the margin purchased from long term sources (excluding NCE and Solar power and Short term Power) and 5% from power purchased from Short-tem/ Medium term sources is considered. The per unit cost is worked out under:

Power Purchase rate considered for SEZ based on 5% at the Margin of Power Purchase of MESCOM for FY16							
5% of the MESCOM's Energy considered in its ARR						**264.38 MU**	
Sources of Energy to meet 95% of the above requirement (Sources having top 5 rates excluding NCE and Solar power and Short term Power)						**251.16 MU**	
SL No	**Sources**	**Capacity Share in MW**	**Energy in MU**	**Fixed charges (Crs)**	**Energy charges (Crs)**	**Total Cost (Crs)**	**Cost per Kwh (Rs/Kwh)**
1	Tuticorn (TPPU-1) Tamil Nadu NLC/TNEBJV (2x500)(1000)	5.84	44.66	0	21.48	21.48	4.81
2	RTPS-VIII (1x250)	20.85	132.41	20.73	58.39	58.39	4.41
3	NTECL-Vallur STPS stage 1 Unit 1 &2 (Tamilnadu) (2x500)(1000)	7.46	44.92	9.29	19.67	19.67	4.38
4	NTPC-Simhadri Stage-I (Andhrapradesh) (2x500) (1000)	17.03	27.85	4.58	12.06	12.06	4.33
5	Short Term Source to meet the remaining 5 % Energy (10 % of 260.18)		13.22		6.94	6.94	5.25
6	Transmission Charges payable to MESCOM & PGCIL				13.6	13.60	0.51
7	Per Unit Trading Margin payable to MESCOM				1.32	1.32	0.05
8	Total Power Purchase rate Payable to MESCOM	51.18	264.38	34.59	133.46	133.46	**5.05**
9	Less Energy for Transmission Losses at 3.8 %		10.05				
10	**Power purchase Rate at sales point**		**254.33**	**34.59**	**133.46**	**133.46**	**5.25**

The above rate payable to MESCOM includes a margin of 5 paise per unit besides transmission charges payable to KPTCL and PGIL.

Hence the Commission hereby approves the power purchase rate of Rs.5.25 payable to MESCOM. At this rate the total power purchase cost for procuring 80.84 MU works out to Rs.42.44 Crores. Hence the Commission approves power purchase cost of Rs.42.44 Crores for FY16, payable to MESCOM.

ii) Other costs:

a) O & M Expenses:

MSEZ has claimed O & M costs of Rs. 1.76 Crores as follows:

Amount in Rs. Crs.

Particulars	FY14	Proposed for FY16
Repairs & Maintenance cost	0.03	0.63
Employees cost	0.11	0.42
Admn. & Gen Expenses	0.30	0.71
Total	**0.44**	**1.76**

On an analysis, it is observed that during FY14 MSEZ has incurred O & M expenses of Rs.0.44 cores and it has proposed to incur Rs.1.76 Crores for FY16. Allowing the O & M expenses considering the normative inflation rate may not be feasible as MSEZ is a new entity and the details of actual O & M expenses of previous are not available. Hence the Commission decides to provisionally O & M expenses at the rate of 1.5% of the Gross Fixed Assets of Rs.5 of Rs.55.76 Crores (closing GFA for FY15) by MSEZ. **The Commission therefore allows O & M expenses of Rs.0.84 Crores for FY16.**

Depreciation:

MSEZ has claimed a depreciation of Rs.2.56 Crores in its ARR for FY16. After excluding the cost of land and RoW cost of Cables, from the Gross Block of Rs.55.76 Crores being the closing balance of FY15, the depreciation on 90% of the assets value, considering the depreciation rates as per the MYT Regulations, works out to Rs.1.96 Crores. The same is computed as under:

Particulars	Cost of the Asset	Rate of Depreciation	Depreciation Allowed in Rs.Crs.
Buildings	5.67	3.34%	0.17
Plant & Machinery	18.07	5.28%	0.86
Towers, Poles Etc.	18.79	5.28%	0.89
Others	0.66	6%	0.04
Total Assets	36.86		1.96

Hence the Commission allows depreciation of Rs.1.96 Crores for FY16.

b) Interest On loans:

MSEZ has claimed interest amounting to Rs.6.04 Crores for FY16. The details of computations are not provided in the filing. The Commission notes that the average of opening and closing loans is well within 70% of the GFA at the beginning of the year. Hence the Commission has considered interest on loans for FY16 and the interest on average loans at rate of 11.25% p.a (the rate claimed by the MSEZ) is worked out as under:

Interest on Loans	Rs. Crs.
OB	35.12
New loans	6.85
Repayment	3.36
Closing Balance of Loan	38.61
Average loan	36.865
Interest	4.15

Thus, the interest on loan allowed by the Commission is Rs.4.15 Crores.

Further, MSEZ has claimed interest on working capital etc. as follows:

Rs. in Crores

Sl.No.	Particulars	Amount
1	Interest on working capital – wires business	0.15
2	Interest on working capital – Supply business	1.34
3	Interest on Consumer deposit	0.23
4	**Total**	**1.72**

It is observed that MSEZ has not furnished the details for computation of the above items. Therefore the Commission has computed the Interest on Working Capital as per MYT Regulations, as follows:

Interest on Working Capital:

Particulars	Amount in Rs. Crs.
To months revenue (approximate)	8.91
O & M expenses of one month	0.15
Maintenance spares 1% of GFA	0.56
Total working Capital	9.61
Interest on Working Capital @ 11.25%	1.08

As worked out above, the Commission allows interest on working capital of Rs.1.08 Crores.

c) Return on Equity (RoE) :

RoE as claimed by MSEZ is Rs.5.76 Crores for FY16. However, the RoE is required to be worked out on Equity limited 30% of Gross Block of assets. Hence the same is worked out as under:

Return on Equity	**Rs. in Crs.**
Gross Block of Assets	55.76
Equity at 30%	16.728
RoE @15.5%	2.59

Thus, the Commission allows RoE of Rs.2.59 Crores.

Based on the approved items of expenditure as discussed above, the total ARR for FY16 for FY16 is as under:

Abstract of approved ARR for FY16

Amount in Rs.Crs.

Power purchase	42.44
O & M Charges	0.84
Return on equity Equity(30% of Capital Cost of Rs.55.76)	2.59
Interest on Avg. Loan of Rs.36.8865 Crs @ 11.25%	4.15
Interest on working capital	1.08
Depn on 90% of Capital Cost of assets	1.96
Less expenses capitalised	-0.84
Total ARR	52.21
Energy & Cost/kwh	6.65

Based on the approved Net ARR of Rs.52.21 Crores for energy sales of 78.50 MU during FY16, the Commission approves Retail Supply & Distribution tariff as follows:

Sl.No.	Particulars	Tariff
1	Demand Charges in Rs./KVA of Billing demand* / month	Rs.140
2	Energy Charges/Kwh	Rs.5.37

**** Billing demand means maximum demand recorded during the month or 75% of contract demand whichever is higher.***

The ARR approved in this order is provisional and subject to Annual Performance Review, as per actuals as per audited accounts for FY16.

10. Extending concession in Licensing Fee:

As discussed in para-3 above, the MSEZ has paid Rs.10 lakhs towards licensing fee. As MSEZ is a deemed licensee w.e.f 03.03.2010, it should pay the licensing fee for seven years. After paying the fee, MSEZ has requested for total waiver of the license fee. The Commission is not in favor of total waiver of the fee. However, considering the fact that it would impose considerable burden on the finances of the small SEZ units, the Commission has decided to extend concession in the

present licensing fee structure, as special case and decides to fix the licensing fee of Rs.1.5 lakhs per annum. At this rate, MSEZ shall have to pay an amount of Rs.10.5 lakhs for seven years, towards licensing fee. Hence, the Commission directs MSEZ to pay the remaining amount of Rs.50,000/- immediately.

This Order is dated and issued by Karnataka Electricity Regulatory Commission on this 3rd day of March, 2015.

Sd/-	**Sd/-**	**Sd/-**
M.R.Sreenivasa Murthy	**H.D.Arun Kumar**	**D.B.Manival Raju**
Chairman	**Member**	**Member**