

**BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION, BANGALORE****Dated this 30th day of March, 2016****Present:**

- |                                |          |
|--------------------------------|----------|
| 1. Sri M.K.Shankaralinge Gowda | Chairman |
| 2. Sri H.D.Arun Kumar          | Member   |
| 3. Sri D.B.Manival Raju        | Member   |

**ORDER****In the matter of determination of ARR for Control Period FY17- FY19  
and Retail Supply Tariff in respect of Mangalore SEZ Ltd (MSEZL)****1. Background:**

The Mangalore Special Economic Zone Ltd., (herein after referred to as MSEZL) is a company incorporated in February 2006 under the Companies Act, 1956. In terms of the KERC Tariff Regulations and the MYT Regulations, the MSEZL has filed this application dated 30<sup>th</sup> November, 2015, for undertaking APR of FY15, approval of ARR for the Control Period FY17 to FY19 and determination of the retail supply tariff for FY17.

In exercise of the powers conferred under Sections 62, 64, and 86 of the Electricity Act 2003, read with the KERC (Terms and Conditions for determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006, as amended from time to time and other enabling Regulations, the Commission has considered the applications of MSEZL and after considering the views and objections of the consumers and other stakeholders, the Commission has passed this Order.

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

## **2. Licensee's Profile:**

The Mangalore Special Economic Zone Ltd. was incorporated in February, 2006 under the Companies Act, 1956, having its registered office at Infantry Road, Bangalore-560001 and its site office is located at Ashok Nagar, Mangalore, Dakshina Kannada District. The MSEZL is 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) and others. The Company is implementing a sector specific Special Economic Zone (SEZ) in its Phase-I for Petroleum and Petrochemical Sector. It has recently been approved as "Multi-Product" Economic Zone (SEZ).

### **MSEZ's Network:**

Power for Supply to the entire Dakshina Kannada (DK) District is procured by the MESCOM at IF points of the KPTCL substations. The 220KV double circuit line from Kemar to Kavour is passing through the MSEZL area and a 220/110KV substation is constructed by the KPTCL, from which the power supply is being made available to the MSEZL at IF point.

There are four numbers of 110KV bays available to the MSEZL at IF point. The MSEZL has constructed 110/33/11KV Grid Substation to cater the power requirement of its consumers. 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. The consumer profile as at the end of 31<sup>st</sup> March, 2015 is shown hereunder:

**Consumer Profile:****TABLE – 1**

Sl. No	Name of the consumer	Voltage class	Type of the consumer	Sanctioned load
1	ONGC Mangalore Petrochemicals Ltd	33KV	Petrochemical	10 MVA
2	Indian Strategic Petroleum Reservoir Ltd	33KV	Petroleum Storage	4.5 MVA
3	Cardolite Speciality Ltd	33KV	Industrial	2 MVA
4	JBF Petrochemicals Ltd	11KV	Temporary	2 MVA
5	10ML Water Reservoir	11KV	Water storage	0.2 MVA
6	MSEZL Other units	11 KV	Industrial	0.009 MVA
7.	Fire Water pump house	11 KV	Fire Service	1 MVA
8.	Marine water fall	11 KV	Pump house	0.5 MVA
9.	Water treatment plant	11 KV	Water treatment	0.75MVA
	<b>Total Sanctioned Load in KVA</b>			<b>20.95</b>

**MSEZL's licensee stations:** As per the Extraordinary Gazette Notification dated 3.3.2010, Ministry of Commerce Government of India, all the Special Economic Zones notified under sub-Section 1 of Section 4 of SEZ Act 2005, shall be deemed to be a Licensee as per Section 14 of the Electricity Act, 2003. The MSEZL, by virtue of the aforesaid notification issued by GOI, the MSEZL became a deemed Distribution Licensee, w.e.f 03.03.2010.

**3. Background for filing the Tariff application:**

The MSEZL had filed its first tariff application on 27.11.2014 and the Commission had issued its order thereon on 03.03.2015. In the said order the Commission had decided to examine the determination of tariff for FY15 and also for FY16. As the application had been filed in November, 2014 and as the details of financial year 2015 were not fully available as the year was not yet complete, the Commission decided to examine the financials of FY15 during the APR of FY15.

The Commission had however, determined the retail supply tariff for FY16 in its Order dated 03.03.2015.

The MSEZL has filed an application on 30<sup>th</sup> November, 2015 and requested the Commission to:

1. Pass appropriate Orders for FY15 on APR.
2. Approve the prayers as per the MYT application for the 4<sup>th</sup> control period FY17-FY19.
3. Consider the tariff structure / proposal detailed in the application and approve tariff proposed in the tariff application, duly considering the submission made by the MSEZL for FY17.
4. Condone any error, omissions and deletions in the petition and give a chance to provide any other necessary information as deemed fit by the Commission.
5. Pass appropriate orders on the application made by the MSEZL.

#### **4. Acceptance of Applications and Consultation Process:**

The Commission, vide its letter dated 15<sup>th</sup> December, 2015 communicated its preliminary observations and the MSEZL in its letter dated 23<sup>rd</sup> December, 2015 furnished its replies.

The Commission, vide its letter dated 14<sup>th</sup> January, 2016, informed the MSEZL that, its application filed on 30.11.2015, for approval of ARR and determination of retail supply tariff in the Mangalore SEZ area, has been treated as a petition in terms of Tariff Regulations, subject to further verification and validation and was requested to publish a summary of the application in leading newspapers in the distribution area of the MSEZL.

Accordingly, the MSEZL has published the summary of application on 20<sup>th</sup> and 21<sup>st</sup> January, 2016, in Deccan Herald, The New Indian Express, Kannada Prabha and Vijaya Karnataka. The Commission has published a Notice of Public hearing on 9<sup>th</sup> February, 2016, in Deccan Herald and Vijayavani. In response, the Commission has received two objections.

5. The Commission has held a Public Hearing on 29<sup>th</sup> February, 2016, at Mangalore to elicit the views of the general public/ stakeholders. The details of written and oral objections, the response of the MSEZL and the Commission's views thereon are as under:

In the written submissions as well as during the Public Hearing some of the Stakeholders and public have raised objections on the Tariff Application filed by the MSEZL and their names are given below:

**List of persons who filed written objections: -**

Sl. No	Application No.	Name & Address of Objectors
1	MS-01	Sri. Sushil K Shenoy, Chief Executive Officer, ONGC Mangalore Petrochemicals Limited.
2	MS-02	Sri. Divakar Kadri, General Manager, Cardolite Specialty Chemicals India LLP.

The Gist of the objections, Replies by the Licensee and the views of the Commission is shown below:

Sl No.	Objections	Replies by Licensee
1	The MSEZL has stated that, it has created the infrastructure capacity of 80MVA keeping in view of the future development	The infrastructure project is taken up considering the long term assessment of energy requirements of the

	of industries in its area. The present load is 18MVA only. Hence, the interest and depreciation should be restricted to the capacity catering to present demand.	consumers and back-up options of load management to provide uninterrupted supply.
	<b>Commission's Views:</b> The interest and depreciation is being allowed as per the norms stipulated in the MYT Regulations. Hence, regulating the same as per the capacity of infrastructure catering to the loads will not arise.	
2	Since the consumption of the existing units is less than the anticipated power requirement, the demand charges may be increased from Rs.140/kVA per month to Rs.200 and corresponding consumption charges may be reduced.	In two part tariff, the demand charges and energy charges have to be increased based on the stack up of the fixed and variable cost. However, the Commission may take a view.
	<b>Commission's Views:</b> This issue has been suitably dealt with in this Tariff Order.	
3	The Technical loss of 1.16% should not be considered as distribution loss while fixing tariff as the MSEZL has a distribution gain of 0.55 % till September, 2015.	The MSEZL has set a target of technical loss of 1.76% as mentioned in Page 65. The exact loss can be known in true-up exercise.
	<b>Commission's Views:</b> The reply furnished by the MSEZL is acceptable.	
4	The MSEZL is collecting bill amount within 18 <sup>th</sup> of every month and is paying the power purchase charges to MESCOM by 18 <sup>th</sup> of every month. Hence, the interest on working capital should not be allowed.	The interest on working capital is allowed for ARR to meet the business working capital requirement. The interest in consumer bill is levied only in case of belated payments.
	<b>Commission's Views:</b> The expenses are being allowed in the ARR in terms of the MYT norms.	
5	The MSEZL should give rebate to the units getting power supply at 33kV as the distribution loss will be less in 33kV as compared to 11kV and LT lines.	It is not financially viable to give a rebate for consumption at 33 KV as 11 KV consumers will have to be charged at very high rates.

	<b>Commission's Views:</b> The voltage- wise cost of service regime is yet to be implemented and hence the losses have to be borne on an average basis, as is being borne by all the other HT consumers in all the ESCOMs.	
6	The self-consumption by the MSEZL, the capex on its re-habilitated colony including power infrastructure and water pumping should not be considered in the tariff revision.	The capital expenditure of other MSEZL utilities are not included in the licensed activity assets.
	<b>Commission's Views:</b> The expenses chargeable to the distribution licensee's establishment have to be included in the ARR.	
7	The energy supplied by the MESCOM should be based on the pooled power purchase cost instead of incremental cost.	The issue is being discussed with the MESCOM. The consumers of the MSEZL are paying Rs.0.38/unit lesser than similar consumers of other ESCOMs due to exemption from Electricity tax.
	<b>Commission's Views:</b> This is suitably dealt with in this Tariff Order.	

## 6. Annual Performance Review for FY15:

The MSEZL has submitted that as per the ARR filed during November, 2014, it had indicated a revenue gap of Rs.9.46 Crores. The said gap was proposed to be recovered as an adjustment from the power purchase bill of the MESCOM. Since the Financial Year 2015 was not yet complete and the audited accounts for FY15, were not available, the Commission had decided to examine the same based on audited accounts for FY15.

The MSEZL has filed the financial results for FY15 as per the audited accounts. A summary of the same is given below:

**TABLE - 2**  
**Financial Performance for FY15**

Amount Rs. in Crores

SL. No.	PARTICULARS	Actuals as per Audited Accounts
1	Power purchase (MU)	7.83
2	Energy available at interface points (MU)	7.83
3	Energy sold (MU)	7.67
4	Distribution loss (%)	2.02%
<b>5</b>	<b>Income</b>	
6	Revenue from sale of power	6.4
7	Tariff subsidy for BJ/KJ & IP sets	0
8	Rev. subsidies & grants	0
9	Other income	0.18
<b>10</b>	<b>Total</b>	<b>6.58</b>
<b>11</b>	<b>Expenditure</b>	
12	Power Purchase	6.4
13	Repairs & maintenance	0
14	Employees costs	0.35
15	Admn. & General expenses	0.44
16	Depreciation and related debits	0
17	Interest & Finance charges	3.84
<b>18</b>	<b>Sub-total</b>	<b>11.03</b>
19	Less: expenses capitalized:	
20	Interest & finance charges capitalized	3.84
21	Other expenses capitalized	0.79
<b>22</b>	<b>Total Interest Capitalized</b>	<b>4.63</b>
<b>25</b>	<b>Total Expenditure</b>	<b>6.40</b>
26	Profit for FY15	0.18

As per the audited accounts, MSEZL has shown profit of Rs. 0.18 Crores for FY15.



**Treatment of revenue Gap for FY15:****MSEZL's Submission:**

The MSEZL in its filing has submitted that, considering the size of operation of the MSEZL in FY15, in terms of energy sales, the number of consumers as well as the delay in commissioning of 220/110/11 KV substation by the KPTCL, which in turn has resulted in its inability to deliver the required quantum of power to its consumers, the MSEZL proposes no further cost recovery from the consumers for FY15. Hence, the MSEZL is foregoing the revenue gap of Rs. 2.57 Crores for FY15.

**Commission's analysis and decision:**

The Commission has not approved the ARR for FY15 and hence has not taken up APR for FY15. However, as the MSEZL is willing to forego the revenue deficit of Rs.2.57 Crores for FY15, the Commission takes note of the proposal.

**7. ERC & Tariff Application for the Control Period FY17-19:**

The summary of the tariff application filed before the Commission, is as under:

**TABLE – 3**  
**ARR for FY17-19 – MSEZL Proposal**

Amount in Rs.Crores

Particulars	FY17	FY18	FY19
Power Purchase (MU)	80.49	89.33	113.06
Energy @ IF Point (MU)	80.49	89.33	113.06
Sales (MU)	79.40	88.01	110.80
Distribution Loss (MU)	1.09	1.32	2.26
Distribution Loss in %	1.35%	1.48%	2.00%
<b>Revenue</b>			
Revenue From Sale of Power	53.08	58.92	73.98
Subsidy from Government	0.02	0.02	0.02
<b>Total Revenue</b>	<b>53.11</b>	<b>58.94</b>	<b>74.00</b>

<b>Expenditure</b>			
Power Purchase Cost	42.26	47.79	61.62
Employee Expenses			
R&M Expenses			
A&G Expenses	1.52	1.66	1.82
Depreciation	2.78	2.80	2.87
Interest & Financing Charges(net)			
Interest on Capital Loan	4.42	3.67	3.19
Interest on Working Capital	1.20	1.32	1.64
Interest on Consumer Deposit	0.29	0.29	0.29
RoE	2.95	3.26	3.85
Other Income	0.30	0.30	0.30
<b>Total Expenses</b>	<b>55.12</b>	<b>60.49</b>	<b>74.98</b>

The MSEZL has submitted that, if the gap of Rs.2.01 crores for FY17 is passed on to its consumers, the same would burden the consumers and therefore it has proposed that, if there is an incremental cost in the purchase of power, the said incremental cost could be passed on to the consumers.

## 8. Determination of ARR for FY17-19:

The analysis of the expenses and decisions of the Commission on each of the expenditure of the MSEZL are discussed below:

### i) Sales:

The MSEZL in its application has estimated sales of 79.40 MU for FY17, 88.01 MU For FY18 and 110.80 MU for FY19. The number of installations is projected at 11 for FY17, 15 for FY18 and 18 for FY19. Since the MSEZL has projected the number of installations and sales duly considering its present status and progress of facilities available within its premises, the Commission has considered the sales projections made by the MSEZL for the control period.

**ii) Distribution Losses:**

MSEZL in its application has projected the following distribution losses for the control period:

Particulars	FY17	FY18	FY19
% Distribution Losses	1.09	1.32	2.26

The Commission notes that the input energy received by the MSEZL is at 33KV and the distribution network of the MSEZL includes 33KV, 11KV and LT network. Considering the increase in sales and number of installations to be added in the next three years, MSEZL has projected increasing distribution losses for FY18 and FY19 as compared to FY17. The Commission notes that the increased loads with increased area of distribution system requires usage of longer electrical network resulting in higher losses. As such, for the present, the Commission decides to consider the same distribution losses as proposed by the MSEZL. However, MSEZL is required to furnish the computation of distribution losses for each year based on the actual metered data of input and sales at the time of APR for assessment of correct distribution losses.

**Power Purchase cost:****MSEZL's Submission:**

The energy requirement proposed for the Control Period is 80.49 MU, 89.33 MU and 113.06 MU for (as per page 69 of the filing) FY17, FY18 and FY19 respectively and the same is proposed to be procured from the MESCOM. The power purchase cost has been computed by assuming the rate of Rs.5.25 per unit for FY17. For FY18 and FY19, i.e. an increase of 10 paise per unit is assumed.

**Commission's analysis and decision:**

The Commission for FY16, had approved power purchase rate of Rs.5.25 per unit considering 5% of the MESCOM's total power purchase at the generation bus. For computing the total power purchase cost 95% of the energy at the margin purchased from long term sources (excluding RE including solar power and short term power) and 5% from short term /medium term were considered. The Commission has adopted the same approach for the Control Period from FY17 to FY19. However, for FY18 and FY19, since short-term purchases are not envisaged, the succeeding sources of generation as per merit order is reckoned to work out the power purchase cost. Accordingly, the computation of power purchase cost for the control period is shown in the following tables:

**TABLE - 4**  
**Cost of Power purchase for FY17**

Amount in Rs.Crores

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of MESCOM	273.03				
95% of Requirement	259.38				
BTPS2	244.89	35.61	81.34	116.95	4.78
BTPS1	14.49	1.52	5.32	6.83	4.72
Short-term	13.65	0	6.88	6.88	5.04
Total PP cost @ 5%	273.03	37.12	93.54	130.66	4.79
Transmission & SLDC Charges		0	16.23	16.23	0.59
Total PP & Transmission cost	273.03	38.55	107.9	146.89	5.38
Trading margin at 5 paise per unit		0	1.37	1.37	
Total cost				148.26	5.43
<b>Energy at Interface point(Tr.loss-3.47%)</b>	<b>263.55</b>				<b>5.63</b>

**TABLE - 5**  
**Cost of Power purchase for FY18**

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of MESCOM	289.07				
95% of Requirement	274.61				
BTPS2	269.73	38.66	91.39	130.05	4.82
BTPS1	19.34	1.97	7.24	9.21	4.76
Total PP cost @ 5%	289.07	40.63	98.62	139.26	4.82
Transmission & SLDC Charges		0	15.93	15.93	0.55
Total PP & Transmission cost	289.07	40.63	114.55	155.19	5.37
Trading margin at 5 paise per unit		0	1.45	1.45	
Total cost				156.63	5.42
<b>Energy at Interface point(Tr.loss-3.37%)</b>	<b>279.32</b>				<b>5.61</b>

**TABLE - 6**  
**Cost of Power purchase for FY19**

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of MESCOM	306.75				
BTPS2	269.96	38.09	93.29	131.38	4.87
BTPS1	36.79	3.82	14.05	17.87	4.86
Total PP cost @ 5%	306.75	41.91	107.34	149.25	4.87
Transmission & SLDC Charges		0	16.66	16.66	0.54
Total PP & Transmission cost	306.75	41.91	124	165.91	5.41
Trading margin at 5 paise per unit		0	1.53	1.53	
Total cost				167.44	5.46
<b>Energy at Interface point(Tr.loss-3.27%)</b>	<b>296.72</b>				<b>5.64</b>

The above rate payable to the MESCOM includes a margin of 5 paise per unit besides transmission charges payable to the KPTCL and the PGIL. Hence the Commission hereby approves the power purchase rate of Rs.5.63, Rs.5.61 and Rs,

5.64 per unit of energy at the IF point, for FY17, FY18 and FY19 respectively payable to the MESCOM.

As per the quantum of sales and the distribution losses indicated by the MSEZL, and power purchase rates computed above, the year wise purchase cost is worked out as under:

**TABLE – 7**

**Approved Sales and Power Purchase cost for FY17-19**

Year	Sales in MU	Distribution Losses in %	Energy at IF point in MU	PP rate at IF point Rs. per unit	Total Power Purchase cost in Rs. Crs
<b>FY17</b>	79.40	1.35	80.49	5.63	45.32
<b>FY18</b>	88.02	1.47	89.33	5.61	50.12
<b>FY19</b>	110.8	2.00	113.06	5.64	63.77

Thus, the Commission approves power purchase cost of Rs.45.32 Crores, Rs.50.12 Crores and Rs.63.77 Crores for FY17, FY18 and FY19 respectively.

i) Other costs:

a) O & M Expenses:

The MSEZL in its application has claimed O & M costs as follows:

**TABLE – 8**

**O & M Expenses – MSEZL Proposal**

Amount in Rs.Crores

Particulars	FY17	FY18	FY19
Employee Expenses	0.40	0.44	0.49
Repairs & Maintenances Expenses	0.80	0.90	0.98
General Administration Expenses	0.32	0.32	0.35
<b>Total</b>	<b>1.52</b>	<b>1.66</b>	<b>1.82</b>

**Commission's analysis and decision:**

The Commission has considered the actual O&M expenses of FY15, which include only employee cost and Administrative and General Expenses for computation of the base year data for FY16. This base year cost is escalated by weighted inflation index of 7.24% and efficiency factor of 0.5% to arrive at the allowable O & M expenses for the control period FY17-19. As the base year cost is excluding the R&M expenses, the R&M expenses for FY17 is factored at 0.5% of GFA and at 1% of the GFA for the remaining period of the Control Period. Based on this approach, the approved O&M expenses for the Control Period are as follows:

**TABLE - 9**  
**Approved O & M Expenses-FY17-19**

Particulars	Amount in Rs.Crores				
	FY15	FY16	FY17	FY18	FY19
Weighted Inflation Index		7.24%	7.24%	7.24%	7.24%
FY15 as per actuals (Excluding R&M Expenses)	0.79				
Base Year O&M Cost (Excluding R&M Expenses)		0.84			
Projected O&M Expenses(Excluding R&M Expenses)			0.90	0.96	1.03
Allowable R&M expenses			0.33	0.66	0.68
<b>Approved O&amp;M expenses</b>			<b>1.23</b>	<b>1.62</b>	<b>1.70</b>

**Thus, the Commission approves O & M expenses of Rs.1.23 Crores, Rs.1.62 Crores and Rs.1.70 Crores for FY17, FY18 and FY19 respectively.**

**b) Depreciation:**

The MSEZL has claimed depreciation for the control period as follows:

Amount in Rs.Crores

Particulars	FY17	FY18	FY19
Depreciation	2.78	2.80	2.87

**Commission's analysis and decision:**

For the purpose of allowing the depreciation, the average of opening and closing balances of assets for the respective years has been considered and the allowable depreciation, at the rate as per the MYT Regulations, is worked out as follows:

**TABLE - 10****Approved Depreciation for FY17-19**

Amount in Rs.Crores

Particulars	FY17		FY18		FY19	
	Closing Balance of Asset as on 31.03.2017	Depcn	Closing Balance of Asset as on 31.03.2018	Depcn	Closing Balance of Asset as on 31.03.2019	Depcn.
Buildings	2.9	0.05	2.9	0.05	2.9	0.05
Civil	0.88	0.02	0.88	0.02	0.88	0.02
Plant & M/c	21.56	0.57	21.56	0.57	21.56	0.57
Line, Cable Network incl plant/Machinery	34.25	0.91	36.25	0.96	36.25	0.96
Furniture	0.02	0.00	0.02	0.00	0.02	0.00
Office Equipments	0.05	0.00		0.00		0.00
<b>Total</b>	<b>59.66</b>	<b>1.55</b>	<b>61.61</b>	<b>1.60</b>	<b>61.61</b>	<b>1.60</b>
Less Depcn. on Contribution		0.02		0.02		0.02
<b>Net Depreciation</b>	<b>59.66</b>	<b>1.52</b>	<b>61.61</b>	<b>1.57</b>	<b>61.61</b>	<b>1.57</b>

Thus, the Commission approves depreciation of Rs.1.52 Crores, Rs1.57 Crores and Rs.1.57 Crores for FY17, FY18 and FY19 respectively.



**c) Interest on loans:**

The MSEZL has claimed interest on loans as follows:

**TABLE – 11****Interest on Capital Loans – MSEZL Proposal**

Amount in Rs.Crores

Particulars	FY17	FY18	FY18
Interest on capital loan	4.42	3.67	3.19

**Commission's analysis and decision:**

The Commission has considered the amount of loans, repayments and new loan, as furnished by the MSEZL. The Commission notes that the weighted average rate of interest during FY15 and FY16 is 19.40% and 21.78% respectively. This rate of interest is abnormally higher as compared to the prevailing interest rates.

The present interest rates by commercial banks and financial institutions are charged mainly on the basis of base rate of interest declared by the RBI from time to time. Hence, the Commission would consider base rate plus spread of 200 basis points and noting the downward trend in the interest rate, the Commission decides to allow long term loans at an interest rate of 11.25% for FY17-19. The Commission has worked out the allowable interest on the average loans for each year of the control period as shown in the following Table:

**TABLE - 12**  
**Approved Interest on Loan for FY17-19**

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Secured Loans	19.88	14.74	10.50
<b>Total</b>	<b>19.88</b>	<b>14.74</b>	<b>10.50</b>
Long term secured & unsecured loans	19.88	14.74	10.50
Add new Loans	0	0	0
Less Repayments	5.14	4.24	3.03
Total loan at the end of the year	14.74	10.50	7.47
<b>Average Loan</b>	<b>17.31</b>	<b>12.62</b>	<b>8.99</b>
Interest Rate allowed in %	11.25%	11.25%	11.25%
<b>Approved Interest on Loans</b>	<b>1.95</b>	<b>1.42</b>	<b>1.01</b>

**Thus, the Commission approves interest on capital loans of Rs.1.95 Crores, 1.42 Crores and Rs.1.01 Crores for FY17, FY18 and FY19 respectively.**

**d) Interest on Working Capital Loan:**

The MSEZL has claimed interest on Working Capital Loan of Rs.1.20 Crores, Rs.1.32 Crores and Rs. 1.64 Crores for FY17, FY18 and FY19 respectively.

**Commission's analysis and decisions:**

As per the norms specified under the MYT Regulations, the Commission has computed the interest on working capital which consists of one month's O & M expenses, 1% of opening GFA and two month's revenue. The approved interest on working capital loans is as follows:

**TABLE - 13****Approved Interest on Working Capital - FY17-19**

<b>Particulars</b>	<b>Amount in Rs. Crores</b>		
	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>
One-twelfth of the amount of O&M Exp.	0.10	0.13	0.14
Opening GFA as per Audited Accounts	61.96	65.83	67.78
Stores, materials and supplies 1% of Opening balance of GFA	0.62	0.66	0.68
One-sixth of the Revenue	8.85	9.82	12.33
<b>Total Working Capital</b>	<b>9.57</b>	<b>10.61</b>	<b>13.15</b>
Rate of Interest (% p.a.)	11.75%	11.75%	11.75%
<b>Interest on Working Capital</b>	<b>1.12</b>	<b>1.25</b>	<b>1.55</b>

Thus, the Commission approves interest on Working Capital loans of Rs.1.12 Crores, Rs.1.25 Crores and Rs.1.55 Crores for FY17, FY18 and FY19 respectively.

**e) Interest on Consumer Security Deposits:**

The MSEZL has claimed the interest on security deposit of Rs. 0.29 Crores for all the years of the Control Period, as follows:

**TABLE - 14****Interest on Consumer Security Deposit for FY17-19**

<b>Particulars</b>	<b>Amount in Rs.Crores</b>		
	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Opening Balance of Consumer Deposits as per Accounts	3.72	3.72	3.72
Rate of Interest Allowed	7.75%	7.75%	7.75%
Allowable Interest on Consumer Deposit	0.29	0.29	0.29

**Commission's analysis and decisions:**

In accordance with the KERC (Interest on Security Deposit) Regulations, 2005, the interest rate on consumer security deposit to be allowed is the bank rate prevailing on the 1<sup>st</sup> of April of the financial year for which interest is due. As per the Reserve Bank of India notification dated 29<sup>th</sup> September, 2015, the bank rate

is 7.75%. This being the latest available bank rate, the Commission has considered the same for computation of interest on consumer deposits for FY17-19.

The Commission has considered the consumer security deposits as proposed by the MSEZL and the approved interest on consumer deposits for FY17-19 is as follows:

**TABLE - 15**

**Approved Interest on Consumer Security Deposits for FY17-19**

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Opening Balance of Consumer Deposits	3.72	3.72	3.72
Rate of Interest	7.75%	7.75%	7.75%
<b>Approved Interest on Consumer Security Deposit</b>	<b>0.29</b>	<b>0.29</b>	<b>0.29</b>

**f) Return on Equity (RoE):**

RoE as claimed by the MSEZL for the Control Period is as follows:

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY18
Return On Equity	2.95	3.26	3.85

**Commission's analysis and decision:**

As the accounts of the MSEZ are not independently drawn/maintained and only the portion of the assets and liabilities of the distribution activity are bifurcated from the business of the developer, the value of gross assets, as certified by the Chartered Accountant, is considered and the equity base is worked out at 30% of the GFA, for the purpose of computing the RoE.

The Commission, in accordance with the provisions of the MYT Regulations, has considered 15.5% of Return on Equity duly grossed up with the applicable

Minimum Alternate Tax (MAT) of 21.342%. This works out to 19.706% per annum. The approved Return on Equity for FY17-19 is as follows:

**TABLE - 16**  
**Approved Return on Equity for FY17-19**

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Equity based on 30% of the opening balance of GFA	18.588	19.749	20.334
Reserves and Surplus	0.180	3.089	6.629
Total equity	18.768	22.838	26.963
RoE @ 15.50%	2.909	3.540	4.179
<b>Approved RoE with MAT</b>	<b>3.70</b>	<b>4.50</b>	<b>5.31</b>

**Thus, the Commission approves RoE of Rs.3.70 Crores, Rs.4.50 Crores and Rs.5.31 Crores for FY17, FY18 and FY19 respectively.**

**g) Other Income:**

MSEZL has indicated other income of Rs. 0.30 crores for all the three years of the Control Period and the Commission accepts the same for the purpose of ARR of the Control Period.

**h) Abstract of Approved ARR for FY17-19**

Based on the above discussions, the Net approved ARR for FY17 to FY19 is as follows:

**TABLE - 17**  
**Approved ARR for FY17-19**

Particulars	Amount in Rs.Crores		
	FY17	FY18	FY19
Power Purchase Cost	45.32	50.12	63.77
O&M Expenses	1.23	1.62	1.7
Depreciation	1.52	1.57	1.57

Interest on Capital Loan	1.95	1.42	1.01
Interest on Working Capital	1.12	1.25	1.55
Interest on Consumer Security Deposit	0.29	0.29	0.29
RoE	3.7	4.5	5.31
Less Other Income	0.3	0.35	0.4
<b>Net ARR</b>	<b>54.83</b>	<b>60.41</b>	<b>74.80</b>

**i) Average Cost of Supply:**

**TABLE – 18**  
**Average Cost of Supply**

Year	Approved Net ARR Rs. Crores	Sales(MU)	Average Cost of Supply Rs. per unit
FY17	54.83	79.40	6.91
FY18	60.41	88.01	6.86
FY19	74.80	110.80	6.75

**9. Retail Supply Tariff of MSEZL for FY17:**

The MSEZ has proposed for approval of retail supply tariff as follows:

Category	Particulars	Rate
HT Industrial		
	Fixed Charges/KVA/month	140
	Energy Charges Rs/kWh	6.31
HT Construction		
	Fixed Charges/KVA	280
	Energy Charges Rs/kWh	9.00

**Commission's analysis and decision:**

The Commission, in order to ensure full recovery of the ARR, has approved the following retail supply tariff:

**Approved Retail Supply tariff for FY17**

Particulars		Approved Tariff
<b>HT Industrial / Common facilities</b>		
	Fixed Charges/KVA/month	180
	Energy Charges Rs/kWh	6.50
<b>HT Construction</b>		
	Fixed Charges/KVA/month	200
	Energy Charges Rs/kWh	9.00

**10. Commission's Order**

1. In exercise of the powers conferred on the Commission under Sections 62, 64 and other provisions of the Electricity Act, 2003, the Commission hereby determines and notifies the retail supply tariff of MSEZL for FY17 as stated above.
2. The above retail supply tariff shall come into effect for the electricity consumed from the first meter reading date falling on or after 1<sup>st</sup> of April, 2016, after due notification to the consumers of the MSEZL.
3. This Order is signed dated and issued by the Karnataka Electricity Regulatory Commission, at Bengaluru this day, the 30<sup>th</sup> March, 2016.

Sd/-  
(M.K.Shankaralinge Gowda)  
Chairman

Sd/-  
(H.D.Arun Kumar)  
Member

Sd/-  
(D.B.Manival Raju)  
Member