

**BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION, BENGALURU****Dated 11<sup>th</sup> April, 2017****Present:**

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

**ORDER****In the matter of determination of revised ARR  
and  
Retail Supply Tariff for FY18 in respect of Mangalore SEZ Limited****1. Background:**

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 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., (herein after referred to as MSEZL) has filed the application dated 30<sup>th</sup> November, 2016, for the approval of APR for FY16, revised ARR and retail supply tariff for FY18 in terms of the KERC Tariff Regulations and the MYT Regulations.

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 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 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). The Company is implementing a sector specific Special Economic Zone in its Phase-I for Petroleum and Petrochemical Sector. It has recently been approved as "Multi-Product" Special Economic Zone.

### MSEZL's Network:

Power for Supply to the entire Dakshina Kannada (DK) District is procured by the Mangalore Electricity Company Limited (MESCOM) at IF points of the Karnataka Power Transmission Corporation Limited (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.

### Consumer Profile:

The consumer profile of MSEZL as at the end of 31<sup>st</sup> March 2016 is shown hereunder:

**TABLE – 1**

Sl. No	Category of Consumer	Voltage class	Sanctioned load in MVA
1	HT Industrial	33/11KV	15.70
2	HT -Construction	11KV	3.90
	<b>Total</b>		<b>19.69</b>

## 3. Background for filing the Tariff application:

The Commission, in its Order dated 3<sup>rd</sup> March, 2015 had determined the ARR and the retail supply tariff for FY16. Further, in its Tariff Order dated 30<sup>th</sup> March, 2016, the Commission has approved the APR of FY15 and has determined the ARR for the control period FY17-19 besides revising the retail supply tariff for FY17.

Now, the MSEZL has filed an application on 30<sup>th</sup> November, 2016 and has requested the Commission to:

1. Pass appropriate Orders on APR for FY16.
2. Approve the revised ARR for FY18.
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 FY18.
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 27<sup>th</sup> December, 2016 communicated its preliminary observations and the MSEZL in its letter dated 3<sup>rd</sup> January, 2017 has furnished its replies.

The Commission, vide its letter dated 5<sup>th</sup> January, 2017, informed the MSEZL that, its application filed on 30<sup>th</sup> November, 2016, for approval of APR for FY16 and revised ARR and revision 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 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 11<sup>th</sup> and 12<sup>th</sup> January, 2017, in Deccan Herald, The New Indian Express, Vijaya Karnataka, Kannada Prabha and Udayavani. The Commission has published a Notice of Public hearing on 10<sup>th</sup> February, 2017 in Deccan Herald, Times of India, The Hindu and The New Indian Express, Vijay Karnataka, Udayavani, Projavani, Kannada Prabha and Vijayavanika. In response, the Commission has received two objections.

#### 5. The Gist of the objections by the Stakeholders and Replies of MSEZL:

The Commission has held a Public Hearing on 27<sup>th</sup> February, 2017, at Mangalore to elicit the views of the general public/ stakeholders. The details of the 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 oral submission made during the Public Hearing some of the stakeholders and consumers have raised objections on the Tariff Application filed by the MSEZL and their names are given below:

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

<u>Sl. No</u>	<u>Application No.</u>	<u>Name &amp; Address of Objectors</u>
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 are shown below:

<u>Sl No.</u>	<u>Objections</u>	<u>Replies by Licensee</u>
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, interest and depreciation should be restricted to the capacity catering to the 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 with reference to cost of the assets created.	
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 the 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 the relevant Chapter of 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 noted.	
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 on 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 norms as per MYT Regulations.	
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 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 business only will 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 the relevant Chapter of this Tariff Order.	