

**BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION****No.16C-1. Miller Tank Bed Area, Vasanthanagar****BENGALURU - 560 052****Dated 4<sup>th</sup> November, 2020****Present:****Shri Shambhu Dayal Meena                      Chairman****Shri H.M. Manjunatha                              Member****Shri M.D. Ravi    Member****ORDER****In the matter of Approval of Revised ARR consequent on APR of FY19 and approval of ARR for FY21 and revision of Retail Supply Tariff for FY21 of Mangalore SEZ Limited****Preamble:**

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

The Mangalore Special Economic Zone Ltd., (hereinafter referred to as MSEZL) has filed the application dated 28<sup>th</sup> November, 2019, for the approval of ARR due to APR for FY19, Approval of ARR for FY21 and determination of retail supply tariff for FY21, in terms of the KERC Tariff Regulations and the MYT Regulations.

In exercise of the powers conferred under Sections 62 and 64 and other provisions of the Electricity Act, 2003, KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations 2006, read with the KERC (Tariff) Regulations, 2000 and other enabling Regulations, the Commission has considered this application and also the views and objections submitted by the consumers and other stakeholders while passing this Order. The Commission's decisions on various aspects, are brought out in the subsequent Chapters of this Order.

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

**Licensee's Profile:**

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

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

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

**MSEZL's Activities:**

- a) MSEZL has constructed 110/33/11KV substation (GSS-03) with installed capacity of 40MVA, which can be augmented, to 80MVA to cater power to various units. Though MSEZL is a multiproduct SEZ, majority of industries located in it are petrochemical industries and as per the norms of OSID, MSEZL receives and distributes power to all its consumers by underground cables only. A stable and quality power supply is being provided to 11KV consumers through Ring Main Units which are inter-linked with UG cables and for 33KV consumers the supply is directly fed through radial feeders emanating from 110/33/11KV GSS-03.
- b) The 110/33/11KV GSS-03 of substation receives stable power from the nearby 220/110/11KV Main Receiving Sub-station of KPTCL at Bajpe, for which 13.939 acres of land within the MSEZL area is leased to KPTCL. From this receiving sub-station, MSEZL has laid twin circuits of copper underground cables of 110KV class 400-sqmm cable to GSS-03, each circuit is capable of delivering 80MVA power, with an augmentation. The total route length of the twin circuits is 1.9 kms.
- c) In the upstream 220/110/11KV Main Receiving Sub-station of KPTCL, the power is sourced through the 220KV Double circuit line from Kemar to Kavoor. This line is integrated to the grid network of KPTCL and further to the southern grid of India.
- d) Based on the existing consumer's requirement and requirement of power for upcoming industries, the Grid substation with 40 MVA capacities, is capable of catering power until FY 2022.

**Consumer of MSEZ:**

The esteemed consumers of MSEZL as at the end of 31<sup>st</sup> March, 2019 is shown hereunder:

**TABLE – 1**  
**Consumers of MSEZ During FY19**

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

### **Consumers Profile as on 31-03-2019**

As on 31 March 2019, the Company was providing power supply to consumers at different voltage levels, as given below:

<b>Sl. No.</b>	<b>Class of Consumer</b>	<b>No. of consumers</b>	<b>Voltage class</b>	<b>Sanctioned load MVA</b>
1	HT - Industrial	11	33/11KV	22.55
2	LT - Industrial	1	11KV	1.00
3	HT - Construction	8	440V	0.15
4	LT - Construction	5	440v	0.07
	<b>Total</b>	<b>25</b>		<b>23.77</b>

### **Background for filing the Tariff application:**

The Commission, in its Order dated 14<sup>th</sup> May, 2018 had determined the ARR and the retail supply tariff for FY19. Further, in its Tariff Order dated 30<sup>th</sup> May, 2019, the Commission has approved the ARR for the control period FY20-22 besides revising the retail supply tariff for FY20.

Now, the MSEZL has filed an application on 28<sup>th</sup> November, 2019 and has requested the Commission to:

1. Pass appropriate order for FY19, based on APR submitted;
2. Consider the Annual Revenue Requirement, tariff structure and proposal for FY21 detailed in the Tariff application and approve proposal made in this Tariff Application.
3. Pass appropriate orders on the application made by MSEZL.

**Acceptance of Applications and Consultation Process:**

The Commission, vide its letter dated 23<sup>rd</sup> December, 2019 communicated its preliminary observations and the MSEZL in its letter dated 27<sup>th</sup> December, 2019 has furnished its replies.

The Commission, vide its letter dated 1<sup>st</sup> January, 2020, informed the MSEZL that, its application filed on 28<sup>th</sup> November, 2019, for approval of APR for FY19 and approval of ARR for FY21 and revision of retail supply tariff for FY21 in the Mangalore SEZ area, has been treated as a petition in terms of the Tariff Regulations, subject to further verification and validation and informed it to publish a summary of the application in the leading newspapers in the distribution area of the MSEZL, inviting objections/comments/suggestions from the consumers and other stakeholders.

Accordingly, the MSEZL has published the summary of its application on 6<sup>th</sup> January, 2020 and 7<sup>th</sup> January, 2020, the following Newspapers:

Kannada Newspapers : Kannada Prabha, Vijayakarnataka,  
Vijayavani, Udayvani  
English Newspapers : Deccan Herald, The New Indian Express.

**Public Consultation:**

1. The Commission undertook the process of public consultation in pursuance of Section 64 of the Electricity Act, 2003, in order to obtain suggestions/views/objections from the interested stake-holders on the Tariff application filed by MSEZL. In the written submissions as well as during the public hearing some stake-holders and public have raised several objections to the Tariff Applications filed by MSEZL. Only one person filed written objections the details of which is given below:

**Person who filed written objections within due date:**

Sl.No	Application No.	Name & Address of Objectors
1	MSA-01	Sri. Divakar Kadri, General Manager (HR & Admn.), M/s Cardolite Specialty Chemicals India LLP, Bajpe, Mangaluru-574142

The M/s Yashaswi Fish Meal and Oil Company, Mangalore SEZ, Perumude village, Mangaluru, had initially filed objections to MSEZL tariff proposal. However, subsequently withdrawn their tariff objection.

The objections/suggestions mainly pertain to:

- a. Tariff;
- b. Certain specific requests.

The gist of objections, Replies by MSEZL and the Commission's Views are as below:

No.	Objections	Replies by MSEZL
<b>MSA-01</b>		
1.	Section 61 of the Electricity Act, 2003 gives the guidelines for the determination of Tariff. Nine guidelines have been given in that section, out of which we are presenting here below three of the important guidelines: a. The generation, transmissions, distribution and supply of electricity are conducted on commercial principles. b. Safeguarding of consumers' interest and at the same time recovery of the cost of electricity in a reasonable manner. c. That the tariff progressively reflects the cost of supply of electricity, and also, reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission.	The Para is only a part submission on section 61 of Electricity Act, 2003 and hence, no comments are offered.

	<p><b>Commission's Views:</b> The Commission is guided by the Electricity Act-2003 and its amendments from time to time, National Electricity Policy, tariff policy and KERC(Terms and Conditions for determination of Tariff for Distribution and Retails Sale of Electricity) Regulations, 2006 and its amendments from time to time and other related regulations in respect of Tariff fixation.</p>	
2.	<p>The Hon'ble Commission should note that the business model of Mangalore SEZ Ltd and the business model of the various other DISCOMS operating in Karnataka is different. While, other DISCOMS have to provide power infrastructure spread over a huge area and build up the facility to give last mile connectivity to consumers, Mangalore SEZ Ltd has to create infrastructure for a limited saleable area of around 900 acres. Further, the sale of power depends on the ability of Mangalore SEZ Ltd to attract new investors (customers) to the special Economic Zone. It is normal for a start-up to have less capacity utilization in the initial years, however, it would be unfair that the unabsorbed overhead (including interest and depreciation) be charge to the existing few units of Mangalore SEZ Ltd. Further, we wish to bring to the notice of the Hon'ble Commission that MSEZL has stated in page 35 of the petition that no augmentation of substation capacity is required. Since the beginning of 1<sup>st</sup> Tariff application in 2015-16, till 6<sup>th</sup> Tariff application in 2020-21, in spite of increase in actual power consumption and demand, there is no need for augmentation of sub-station capacity, as the initial substation itself was of much higher capacity. Accordingly, MSEZL has recovered higher depreciation and interest/return on</p>	<p>We wish to bring to the kind attention of the Hon'ble commission that the objector continues to repeatedly raise these points and we have already given replies to these set of points in tariff filing relating to FY16, FY17, FY18, FY19 and FY20.</p> <p>Further, the Hon'ble Commission considering the facts has judiciously issued tariff orders.</p> <p>The Hon'ble Commission has in detail analyzed and redressed to similar set of points raised by objector in review petition 16/2018 and dismissed review petition 16/2018 vide order dated 28.05.2019.</p>

	equity from your Cardolite.	
	<b>Commission's Views:</b> The Commission notes the above observation and reply provided by MSEZL.	
3.	When the Multi Year Tariff regulations was notified, Karnataka had public Sector Undertaking as Discom who would distribute all the power in the State. However, in the recent year, various private players have been approved to supply and distribute power in certain area, especially the SEZ developer who are deemed distributors of power. The development of SEZ is over a relatively a very small area in maybe be around 1 to 2 thousand acres as compared to other Discom like BESCO which cover a few districts. Hence, the existing guidelines are not suitable for the users of Power with SEZ area. Hence, we request to consider the following amendments given in Annexure 1 to the decade old regulation for determination of tariff. Alternatively, a different Multi Year Tariff regulation for SEZ Developers may be farmed keeping the interest of the SEZ Developers and the SEZ units.	The parity in end tariff is ensured by the Hon'ble Commission by determining tariff so that a similar class of consumers in the same area of operation are not put into a disadvantageous position Thus, it may please be noted that MSEZL consumers are not paying more than the tariff rate paid by similarly paced consumers in the same area of operation.
	<b>Commission's Views:</b> The Commission notes the above observation and reply provided by MSEZL.	
4.	Considering the request to amend the Multi Year tariff regulations for SEZ Developers, the interest on Capital, Depreciations on the actual infrastructure required may be considered.	The parity in end tariff is ensured by the Hon'ble Commission by determining tariff so that a similar class of consumers in the same area of operation are not put into a disadvantageous position. Thus, it may please be



		noted that MSEZL consumers are not paying more than the tariff rate paid by similarly paced consumers in the same area of operation
	<b>Commission's Views:</b> The Commission notes the above observation and reply provided by MSEZL.	
5.	The Hon'ble Commission has been fixed the purchases cost of power of Mangalore SEZ Ltd from MESCOM, as per State Approved Power Purchase Cost excluding Hydro. The Actual cost of Power for MESCOM as per annexure D-1 is Rs. 3.72 per unit. If Hydro cost is excluded it comes to Rs. 5.64 per unit. However, MESCOM has proposed Rs. 6.25 per unit. Such high cost would make power supply from MSEZL much higher than MESCOM tariff to other similar units outside MSZEL. The Hon'ble Commission may note that there is constant power demand in Mangalore Special Economic Zone. Hence, it is requested that the Hon'ble Commission should consider the pool cost of power as stated above while fixing tariff to Mangalore SEZ Ltd while fixing the tariff of MESCOM to MSEZL. This move is in interest of MSEZL to attract new industries to Mangalore Special Economic Zone. Further, the Hon'ble Commission may allow the SEZ unit to purchase power from own sources or external agencies (wheeling power).	The issue would be suitably dealt by the Hon'ble Commission in the tariff order as it would deem fit.
	<b>Commission's Views:</b> The Commission notes the above observation.	
6.	MSEZL has created infrastructure for the existing and the future units in Mangalore Special Economic Zone. However, many of	The issue would be suitably dealt by the Hon'ble Commission in

	<p>the existing units are not availing power as per the anticipated power requirement. We request the Hon'ble Commission to kindly increase the demand charge per KVA per month from Rs. 200/- to at least Rs. 250/- as this demand charges has direct relationship with the infrastructure created. Further, the demand charges for 2000 KVA to 5000 KVA should be Rs. 500/- per KVA and demand charge for above 5000 KVA should be Rs. 1000/- per KVA. MESCOM also proposed a higher Demand Charge for higher KVA. Corresponding unit charges may be reduced to compensate the higher demand charges.</p>	<p>the tariff order as it would deem fit.</p>
	<p><b>Commission's Views:</b> The Commission notes the above observation.</p>	
7.	<p>Cardolite has filed a writ petition before the Hon'ble High Court on the order of the Hon'ble Commission raising various additional grounds based on the review petition before the Hon'ble Commission. As the matter may be sub judice, we presently, would not like to raise similar objections at this point of time. However, we would like to reserve the right take up the objections, if the Hon'ble High Court passes a judgement in our favour of Cardolite before the date of hearing. In case, the favourable judgement is passed after the date of hearing, we reserve the right to file a review petition before the Hon'ble Commission.</p>	<p>The observation is not related to the tariff petition for FY21 and hence, no comments are offered.</p>
	<p><b>Commission's Views:</b> The Commission notes the reply provided by MSEZL.</p>	
8.	<p>It is expected that major companies like Syngene International Limited and Catasynth Specialty Chemicals would commence business operation before 31<sup>st</sup> March, 2020.</p>	<p>The objector has only stated some data and hence, no comments are offered.</p>

	There would be high demand for power from these industrial units.	
	<b>Commission's Views:</b> The Commission notes the observation. MSEZL would have analyzed the impact on tariff considering expected demand of above companies to the objector.	
9.	Mangalore SEZ Ltd has not taken any initiative for installing Renewable Power at the significantly lower cost like solar panels over the water reservoirs and other unutilizable land, which can reduce the purchase of expensive power from MESCOM. While MESCOM is proposing to reduce the power tariff for HT consumers by 50 paisa, it is unfortunate that Mangalore SEZ Ltd is proposing an increase of 18 paisa.	The FY21 tariff proposal for Paise 18/unit is made in the context of Paise 29/unit increase in power purchase cost in MYT tariff for FY21. The Hon'ble Commission would pass the orders as it deems fit.
	<b>Commission's Views:</b> The Commission is guided by the KERC(Terms and Conditions for determination of Tariff for Distribution and Retails Sale of Electricity) Regulations, 2006 and its amendments from time to time.	
10.	In view of the foregoing deliberations, we request that the cost of power from Mangalore SEZ Ltd should not be higher than the MESCOM cost of power for the same industrial Consumers. Special Economic Zone are developed to attract foreign investment in India and promote exports. Hence, it is imperative that the cost Power is competitive in international markets.	
	<b>Commission's Views:</b> The Commission notes the above observation and MSEZL shall have provided its replies to the above observation.	

2. Person who made oral submissions during the Public Hearing, held on 13.02.2020:

SL. No.	Names & Addresses of Objectors
1	Shri. A.R.Musba, M/s Cardolite Specialty Chemicals India LLP, Bajpe, Mangaluru-574142

**Replies by MSEZL:**

The MSEZL, while furnishing replies stated that the infrastructure for 40 MVA has been created in MSEZL based on the consumer requests. However, some of them have not turned up. This year demand is expected to increase to 35 MVA from present demand of 27 MVA. The suggestion of installation of solar power capacity in MSEZL from M/s Cardolite Specialty Chemicals India LLP is being considered and if M/s Cardolite Specialty Chemicals India LLP, provide their consumption pattern, MSEZL will look into procurement of the required power from Open Access.

**Commission's Views:**

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