MANGALORE SEZ LIMITED

Annual Performance Review for FY 17 and Annual Revenue Requirement (ARR) for the Distribution and Retail Supply Business And Tariff Petition for FY 19

FILED ON 29th November, 2017

Submitted to

KARNATAKA ELECTRICITY REGULATORY COMMISSION

By
MANGALORE SEZ LIMITED

29th November, 2017

BEFORE KARNATAKA ELECTRICITY REGULATORY COMMISSION
AT BANGALORE

BEFORE KARNATAKA ELECTRICITY REGULATORY COMMISSION AT BANGALORE

Fling No__________
Case No_________

IN THE MATTER OF

An Application for approval for Annual Performance Review for FY 17 and Annual Revenue Requirement and Expected Revenue from Charges (ERC) for wires and supply business of Mangalore SEZ Limited, Mangalore And approval of tariff filing for FY 19 of Mangalore SEZ Limited under Section 61 & 62 of the Electricity Act,2003 read with relevant Regulations of KERC (Tariff) Regulations including KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006.

AND
IN THE MATTER OF

Mangalore SEZ Limited (MSEZL), Mangalore.

AFFIDAVIT

1. I, V. Suryanarayana, S/o V. Srinivasa Rao, aged 49 years, Chief Operating Officer, Mangalore SEZ Limited, Mangalore, do solemnly affirm and say as follows.

2. I, V. Suryanarayana, dealing with Regulatory Affairs, Mangalore SEZ Limited, Mangalore, duly authorized to make this Affidavit. The Managing Director, Mangalore SEZ Limited has accorded the approval on 15th December, 2016 (the powers and authorities of Managing Director are granted by the Board of Directors of Mangalore SEZ Limited in the 2nd Board Meeting held on 8th July, 2006).

3. The statement made in Chapters 1 to 15 and the related Annexure of ERC herein now shown to me are true to the best of my knowledge and the statements made in Chapters 1 to 15 are based on information I believe to be true.

4. Solemnly affirmed at Mangalore on this 24th November 2017 that the contents of the above Affidavit are true to the best of my knowledge, no part of it is false and no material information has been concealed there from.

For **Mangalore SEZ Limited**

Place: Mangalore
Date: 24.11.2017

Authorized Signatory

ABBREVIATIONS

A &G	Administrative and General
ARR	Aggregate revenue requirement
APR	Annual Performance Review
CERC	Central Electricity Regulatory Commission
CAPEX	Capital Expenditure
CWIP	Capital Work in Progress
Cr	Crore
D:E	Debt to Equity Ratio
ERC	Expected Revenue from Charges
FAC	Fuel Cost Adjustment Charges
FY	Financial Year
HT	High Tension
GSS	Grid Substation
GFA	Gross Fixed Asset
HV	High Voltage
KPTCL	Karnataka Power Transmission Company
KERC and Hon'ble Commission	Karnataka Electricity Regulatory Commission
KV	Kilo volts
KVA	Kilo volt Amperes
KW	Kilo Watt
KWh	Kilo Watt hours
LT	Low Tension
MAT	Minimum Alternate Tax
MESCOM	Mangalore Electricity Supply Company
MRPL	Mangalore Refinery and Petrochemicals Ltd
MRSS	Main Receiving Substation
MSEZ	Mangalore Special Economic Zone
MSEZL	Mangalore SEZ Limited
MUs	Million Units
MVA	Mega Volt Amp
MWs	Mega Watts
MYT	Multi Year Tariff
NFA	Net Fixed Asset
O & M	Operation & maintenance
ONGC	Oil & Natural Gas Corporation Limited
OMPL	ONGC Mangalore Petrochemicals Limited
RBI	Reserve Bank of India
R & M	Repairs and Maintenance
RoE	Return on Equity
SEZ	Special Economic Zone
SPV	Special Purpose Vehicle
TDS	Tax Deducted at Source

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ARR F I L I N G ANNEXURES

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3	Energy Loss inspection Report	III
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N O T E

In this application:

Previous year is defined as Financial Year 2016 – 17
(Referred as FY – 17)

Current year is defined as Financial Year 2017 – 18
(Referred as FY – 18)

Ensuing year is defined as Financial Year 2018 –19
(Referred as FY – 19)

1. STATUTORY ADHERANCE

A. In accordance with The Karnataka Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations-2006, every Distribution Licensee is required to file an application for approval of ARR and ERC under the MYT framework for the Control Period. The filing for the Control period shall have to be made by the licensed within a period not less than 120 days before the commencement of the Control Period. The filing shall be for the entire Control Period. The filing shall be in the same form as specified in the KERC (Tariff) Regulations, with year wise details for each year of the Control Period, duly complying with the principles for determination of ARR as specified in these Regulations.

MSEZL is a company incorporated in February 2006 under Companies Act 1956, having its registered office at 3rd Floor, MUDA Building, Ashok Nagar, URWA Stores, Mangalore - 575006. MSEZL is 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 its Phase-I for Petroleum and Petrochemical Sector and has been upgraded as "Multi-Product" Special Economic Zone (SEZ) in year 2013.

B. As per the Extraordinary Gazette Notification dated 3-3-2010 issued by Ministry of Commerce, Government of India, the Developers / Co-Developers of a Special Economic Zones notified under sub section 1 of section 4 of SEZ act 2005, shall be deemed a distribution licensee as per Section 14 of the Electricity Act 2003.

Consequently, MSEZL has consistently filed tariff petition for determination of Distribution and Retail Supply Tariff for FY 16, FY 17 and FY 18. The Hon'ble Commission has approved the ARR and passed tariff orders for all the respective years and has approved the APR for FY 16.

The content of latest order passed for ARR FY 18 is as under:

- The Tariff Order dated 08.05.2017 approved a Net ARR of Rs.57.39 Crores for FY 18. The retail supply and distribution tariff was under three categories **HT – Industrial** - Rs.200/KVA and Rs.6.34/kWh for energy charges and **HT – Construction** - Rs.230/KVA and Rs.9.00/kWh for energy charges and **LT – Industrial** - Rs.190/KVA and Rs.6.00/kWh for energy charges.

C. MSEZL aggrieved by the FY 18 tariff order had filed a review petition on 08.06.2017 and the Hon'ble Commission has vide order dated 26th October, 2017 has revised the ARR for FY 18 and allowed a net revenue deficit Rs.3.91 Crores for FY 18 to be recovered in FY 19 ARR. The net revenue deficit allowed for ARR for FY 18 - Rs.3.91 Crores also includes the revenue deficit of FY 16 Rs.0.98 Crores.

On the revised orders MSEZL has vide its letter MSEZL/KERC/2017-18/01 dated 06th November, 2017 has brought to the notice of the Hon'ble Commission certain discrepancies in the order and has sought the guidance of Hon'ble Commission in addressing the discrepancies. We request the Hon'ble Commission to consider our submissions.

D. MSEZL is filing the ARR and tariff petition for FY 19, besides, it is also filing the APR petition for FY 17. Further, in the ARR for FY 19 we have also considered the 26th October, 2017 order to carry forward the FY 18 net revenue deficit of Rs.3.91 Crores to the ARR of FY 19 and have proposed the tariff for FY 19.

E. The content of this application is in accordance with the Retail supply tariff guidelines notified by Hon'ble Commission.

F. As part of this exercise, MSEZL will provide such information as may be stipulated by the Hon'ble Commission from time to time. For any additional information not previously known or available to us at the time of filing the APR for FY 17 and ARR for FY 19 the information would be placed as additional submissions for the kind consideration of the Hon'ble Commission..

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2. MSEZL in brief

2.1 Profile of the company

The Government of India has, over the last decade, adopted a multi-pronged approach for promotion of foreign investments in India. Government of India announced, the SEZ Policy, to enable the creation of SEZs in the country with a view to provide an internationally competitive and hassle-free environment for exports. This policy was intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.

Mangalore SEZ Limited (MSEZL) is an SPV co-promoted by Oil and Natural Gas Corporation Limited (ONGC) (26%), Infrastructure Leasing & Financial Services Limited (IL&FS) (50%), Karnataka Industrial Areas Development Board (KIADB) (23%) and Kanara Chamber of Commerce and Industries (KCCI) and others (1%).

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 Pharma and Food Processing Industries.

Our Esteemed Consumer Profile is as under:

Sl. No	Customers
1	ONGC Mangalore Petrochemicals Limited
2	JBF Industries Ltd
3	Indian Strategic Petroleum Reserves Limited
4	Sygene International Limited, a Biocon Company
5	Anthea

6	Cardolite Specialty Chemicals LLP
7	Trident Infra Private Limited
8	Authentic Ocean Treasure
9	Gadre Marine Export Private Limited
10	Yashaswi Fish Meal & Oil
11	Shree Ulka LLP

2.2 Brief Introduction of Licensed Activities (Electrical Network)

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 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 substation, 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 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 2020.

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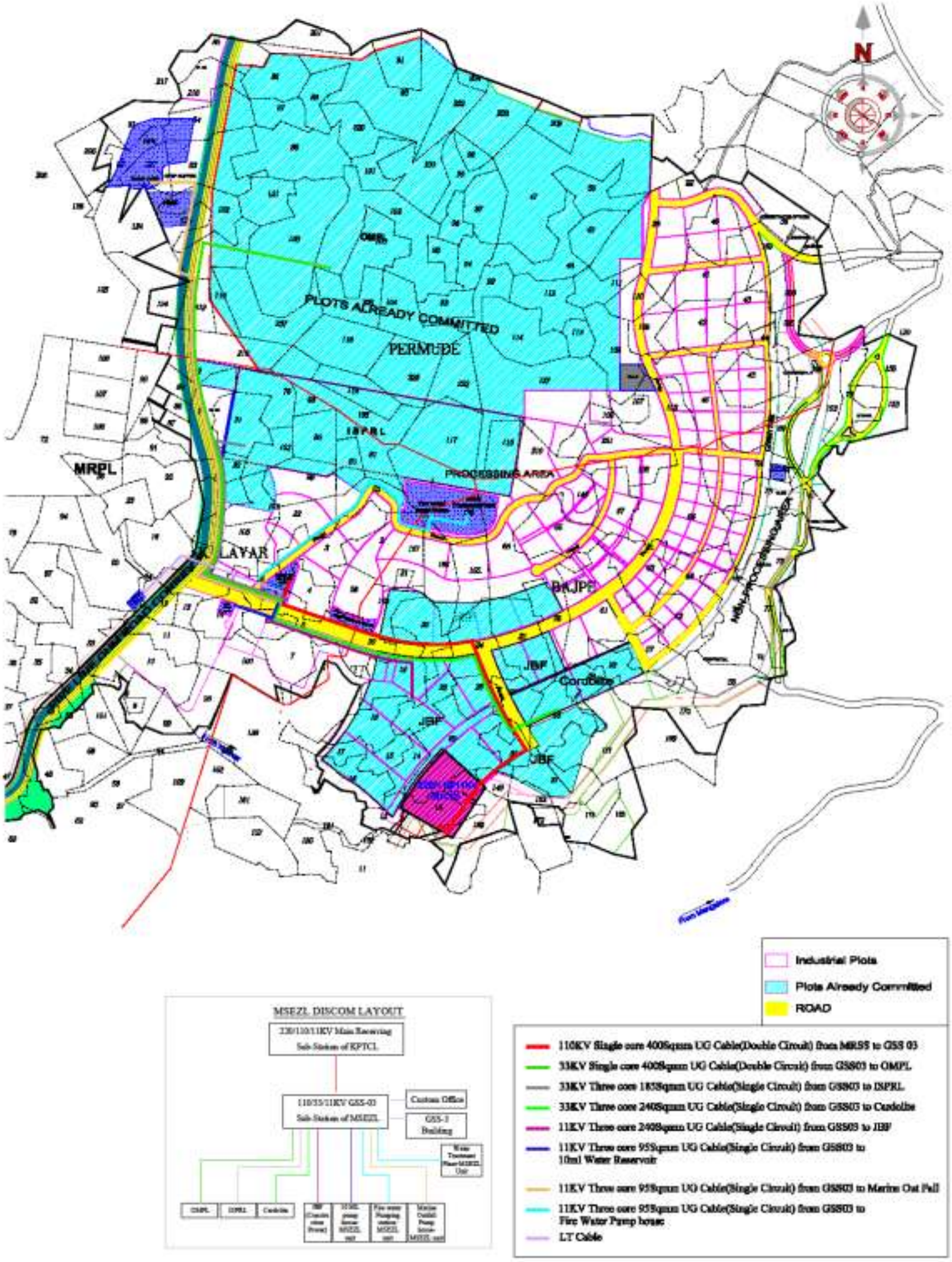
2.3 Map of MSEZL showing electrical network

Area Map of Mangalore SEZ Limited Showing Existing Electrical Network



2.4 Consumers Profile as on 31-03-2017

As on 31 March 2017, the Company was providing power supply to consumers at different voltage levels, as given below:-

Sl. No.	Class of Consumer	No. of consumers	Voltage class	Sanctioned load MVA
1	HT - Industrial	7	33/11KV	17.14
2	HT - Construction	2	33/11KV	2.06
	Total			**19.20**

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3. Segregating Licensed and Non-licensed activities of MSEZL

A. The books of account of MSEZL as at 31st March 2017 is audited and received, considered and adopted by the shareholders in the Annual General Meeting held on 19th August 2017. From the audited books of account, the financial statement has been segregated into licensed and non-licensed portion activities.

B. The basis and method adopted for segregation of Balance sheet and Profit & Loss account of FY 17 is consistent with the methodology followed for segregation in the earlier tariff petitions filed for FY 16, FY 17 and FY 18 (Chapter 3 of respective ARR filing). However, where the statutory auditors have suggested a method, which is more scientific to give a true & fair view of presentation of MSEZL books of accounts, the same is followed for preparing and presenting licensed portion of business activity in the P&L account and Balance sheet.

C. The audited financial statement as at 31.03.2017 is enclosed as Annexure I. This set of information is used for preparing and presenting the financials of APR for FY 17 under Form A-2.

D. MSEZL has put in its best efforts to accurately bifurcate the entire business transactions into the "Licensed" and "Non-Licensed" portion. It has all the supporting records/documents in support of the exercise made. The Company would be happy to provide any further information that would be required by the Commission in this regard.

E. Besides, MSEZL has availed the services of its statutory auditor to verify and certify the correctness of the methodology followed for segregation of Balance sheet and the P&L pertaining to the licensed activity portion from the overall of audited accounts of the Company for FY 17. The independent report received from the statutory auditor is attached as Annexure II.

In the following table, we have presented the audited figures of the Balance sheet of the MSEZL as at 31st March 2017.

Rs. in Cr.

PARTICULARS	MSEZL Audited Figures as at 31st March 2017
SHAREHOLDER'S FUNDS:	
SHARE CAPITAL	50.00
RESERVES & SURPLUS	17.15
Total	**67.15**
LOAN FUNDS:	
LOANS FROM STATE GOVT	
LOANS FROM OTHERS- SECURED	572.57
LOANS FROM OTHERS- UNSECURED	
FRESH BORROWINGS FOR CAPEX	
Total	
CONTRIBUTIONS, GRANTS & SUBSIDIES TOWARDS COST OF CAPITAL ASSETS	
OTHER LONG TERM LIABILITIES	828.80
LONG TERM PROVISIONS	1.32
DEFERRED TAX LIABILITY	35.49
GRAND TOTAL	**1505.33**
APPLICATION OF FUNDS:	
NET FIXED ASSETS:	
a) GROSS BLOCK	1034.67
b) LESS: ACCUMULATED DEPRECIATION+AAD	54.30
c) NET FIXED ASSETS	**980.37**
d) CAPITAL WORK IN PROGRESS	451.01
e) ASSETS NOT IN USE	
f) DEFERRED COSTS	
g) INTANGIBLE ASSETS	14.54
SUB TOTAL OF (c) TO (g)	**1445.92**
INVESTMENTS	0.085
LONG TERM LOANS AND ADVANCES – SECURITY DEPOSIT KEPT WITH MESCOM AND OTHERS	5.75
OTHER NON-CURRENT ASSETS	27.14
OTHERS	21.99
SUB TOTAL	**54.96**
NET CURRENT ASSETS:	
A. CURRENT ASSETS, LOANS & ADVANCES	
a) INVENTORIES	

CURRENT INVESTMENTS	
b) RECEIVABLES AGAINST SALE OF POWER& OTHER RECEIVABLES	48.65
c) CASH & BANK BALANCES	74.15
d) LOANS & ADVANCES and OTHER CURRENT ASSETS	10.32
e) SUNDRY RECEIVABLES	
TOTAL OF A	**133.11**
B. CURRENT LIABILITIES AND PROVISIONS:	
a) SECURITY DEPOSIT FROM CONSUMERS	3.74
b) BORROWINGS FOR WORKING CAPITAL	
c) PAYMENTS DUE ON CAPITAL LIABILITIES	
d) OTHER CURRENT LIABILITIES - D 25	109.63
e) Current Maturities of Long Term Debt	6.53
f) SUNDRY CREDITORS-POWER PURCHASE	
g) PROVISION FOR PENSION, GRATUITY,FBF etc.	8.76
h)PROVISION FOR IT and FBT	
TOTAL OF B	**128.66**
NET CURRENT ASSETS (A - B)	**4.45**
GRAND TOTAL	**1505.33**

In the following table, the audited balance sheet of MSEZL as at 31st March 2017 segregated into balance sheets pertaining to licensed and Non-Licensed activities is presented before the Hon'ble Commission.

Rs. in Crores

PARTICULARS	MSEZL Audited Figures as at 31st March 2017	Relating to Non-Licensed Activity as at 31st March 2017	Relating to Licensed Activity as at 31st March 2017
SHAREHOLDER'S FUNDS:			
EQUITY SHARE CAPITAL – (INCLUDING SHARE DEPOSIT)	50.00	50.00	
EQUITY SHARE CONTRIBUTION			35.55
RESERVES & SURPLUS	17.15	21.61	(4.46)
Total	**67.15**	**71.61**	**31.07**
LOAN FUNDS:			
LOANS FROM STATE GOVT			
LOANS FROM OTHERS- SECURED	572.57	547.70	24.88
LOANS FROM OTHERS- UNSECURED			
FRESH BORROWINGS FOR CAPEX			
Total	**572.57**	**547.70**	**24.88**
CONTRIBUTIONS, GRANTS & SUBSIDIES TOWARDS COST OF CAPITAL ASSETS			

OTHER LONG TERM LIABILITIES	828.80	828.80	
LONG TERM PROVISIONS	1.32	1.32	
DEFERRED TAX LIABILITY	35.49	32.37	3.13
GRAND TOTAL	**1505.33**	**1481.80**	**59.08**
APPLICATION OF FUNDS:			
NET FIXED ASSETS:			
a) GROSS BLOCK	1034.67	969.64	65.03
b) LESS: ACCUMULATED DEPRECIATION+AAD	54.30	49.37	4.93
c) NET FIXED ASSETS	**980.37**	**920.27**	**60.10**
d) CAPITAL WORK IN PROGRESS	451.01	451.01	
e) ASSETS NOT IN USE			
f) DEFERRED COSTS			
g) INTANGIBLE ASSETS	14.54	14.54	
SUB TOTAL OF (c) TO (g)	**1445.92**	**1385.82**	**60.10**
INVESTMENTS	0.085	0.085	
LONG TERM LOANS AND ADVANCES – SECURITY DEPOSIT WITH MESCOM AND OTHERS	5.75	1.90	3.85
OTHER NON-CURRENT ASSETS	27.14	27.14	
OTHERS	21.99	21.99	
SUB TOTAL	**54.96**	**51.11**	**3.85**
NET CURRENT ASSETS:			
A. CURRENT ASSETS, LOANS & ADVANCES			
a) INVENTORIES			
CURRENT INVESTMENTS			
b) RECEIVABLES AGAINST SALE OF POWER& OTHER RECEIVABLE	48.65	47.05	1.60
c) CASH & BANK BALANCES	74.15	75.67	(1.53)
d) Share Contribution to Licensed Activity		35.55	
d) LOANS & ADVANCES and OTHER CURRENT ASSETS	10.32	10.03	0.29
e) SUNDRY RECEIVABLES			
TOTAL OF A	**133.11**	**168.29**	**0.36**
B. CURRENT LIABILITIES AND PROVISIONS:			
a) SECURITY DEPOSIT FROM CONSUMERS	3.74		3.74
b) BORROWINGS FOR WORKING CAPITAL			
c) PAYMENTS DUE ON CAPITAL LIABILITIES			
d) OTHER CURRENT LIABILITIES - D 25	109.63	108.42	1.21
e) CURRENT MATURITIES OF LONG TERM DEBT	6.53	6.25	0.28

f) SUNDRY CREDITORS-POWER PURCHASE			
g) PROVISION FOR PENSION, GRATUITY,FBF etc.	8.76	8.76	
h)PROVISION FOR IT and FBT			
TOTAL OF B	**128.66**	**123.43**	**5.23**
NET CURRENT ASSETS (A - B)	**4.45**	**44.87**	**(4.87)**
GRAND TOTAL	**1505.33**	**1481.80**	**59.08**

The Balance sheet for the licensed activity as at 31st March 2017 is prepared considering the Assets viz., Gross fixed assets, CWIP & non- current and current assets and Liabilities viz., equity shareholders' capital, loans & advances, non-current and current liabilities including current Liabilities for long term debt

The method adopted for the preparation and presentation the licensed activity balance sheet as at 31.03.2017 is detailed below.

3.0 Balance Sheet Items:

Fixed Asset

The GFA position as on 31st March 2017 comprises of the followings fixed assets:

Sl. No.	Particulars	Amount Rs. in Cr.
1.	Leasehold Land	6.17
2.	Building and structures	2.84
3.	**Plant and Machinery** Substation Transformers, Circuit breakers, other fixed apparatus of rating 100 MVA and below	21.18
4	Towers, Poles, fixture, overhead conductors, UG cables and devices	33.89
5	Other items/Computers	0.07
6	Other Civil Works - Roads	0.87
	MSEZL - Total	**65.03**

Note: There was no major capital investment made in FY 17.

Accumulated Depreciation

The accumulated depreciation as at 31st March, 2017 for the above listed fixed assets is Rs.4.93 Crores.

CWIP

The CWIP as at 31st March 2017 is NIL, as all the contract works pertaining to licensed activity is already completed and assets capitalized. There are no additional capex works awarded/carried/executed in FY 17.

3.1 Long Term Loans & Advances

The deposits kept with MESCOM for drawing 20 MVA power and outstanding as at 31st March 2017 is Rs. 3.85 Crores.

3.2 Current Assets:

a. Receivables against sale of power: The receivables outstanding against the sale of energy as at 31st March 2017 Rs.1.6 Crores. The receivables are mainly of the bills raised for the month of March 2017.

b. Cash & Bank Balance: The cash and bank balance comprises of bank balance towards the power distribution business Rs. (1.53) Crores.

c. Other Current Assets includes accrued interest receivable for FY 17 on security deposit kept with MESCOM Rs.0.29 Crores.

3.3 Liabilities:

a. Deposits from Consumers: The consumer deposits as at 31st March 2017 is Rs.3.74 Crores and is classified as a current liability.

b. Other Current Liabilities of Rs.1.21 Crores as at 31st March 2017 includes the monies withheld under contractual terms/work orders awarded towards licensed business activity, statutory liability payable towards TDS, interest payable on consumer security deposits and provision for outstanding expenses.

c. The Current maturities of long-term debt as at 31st March 2017 Rs.0.28 Crores for licensed business activity.

d. The tax liability arising out of the temporary timing difference on account of differential depreciation rates under Income Tax Act, 1961 and CERC notified rates is accounted as deferred tax liability and as at 31st March, 2017 the accumulated liability is Rs.3.13 Crores.

3.4 Capital Structure For Licensed Business Activity:

a) In the previous three ARR filings, we had prepared and presented the balance sheet initial capital structure for FY 14, FY 15, FY 16, FY 17 & FY 18.

The method adopted for arriving at the debt and equity amount **for a capital investment of Rs.65.84 Crores** was explained in detail in the FY 17 ARR filing from page number 27 to page number 28. The same is recapitulated as under:

- The overall D: E ratio for MSEZL was 46:54 (including cost of land) and hence, the D:E ratio for licensed business activity is also structured and computed on the similar basis.
- The funding for capital investment of Rs.65.84 Crore is considered at the D: E ratio of 46:54 respectively.

b) Though the D:E ratio of MSEZ licensed activity as per its Balance sheet is 46:54 as stated above, for the regulatory accounting, we have considered capital structure at D:E ratio of 70:30 for computation of interest on capital loan and RoE calculation for tariff fixation/determination. These calculations are furnished in Form A1, Form A4 and Form D9 of the excel file attached**.**

c) The Hon'ble Commission through the dated 26th October, 2017 against RP.08/2017 for FY 18 FY 17 has considered normative D: E ratio of 70:30 as the capital structure for approving the returns viz., interest on capital and RoE respectively.

d) We wish to emphasize again that the segregation of licensed activity flows from the MSEZL statutory accounting where the debt and equity is carried at historical actual viz., 46:54 ratio, which is reflected in the Form A2 and Form D9.

e) Thus, in the Balance as at 31st March 2017 – Long term debt stands at Rs.24.88 Crores and current maturities of long term debt being Rs.0.28 Crores and therefore the total debt stands at Rs.25.16 Crores and equity share capital is Rs.35.55 Crores.

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4. Annual Performance Review – FY 17

4.1 The Hon'ble Commission has approved a net ARR of Rs.54.83 Crores for FY 17 through its order dated 30th March 2016 (herein after referred as "approved ARR"). The present APR for FY 17 is submitted considering the actual expenditure incurred during the year under review.

4.2 As referred in chapter 3 above, the books of account of MSEZL as on 31st March 2017 is audited. Also, the standalone financial statement of MSEZL's Licensed Activity for FY 17 is audited and an independent audit certificate is issued by the statutory auditors.

4.3 The independent auditor's certificate with the segregated i.e. licensed and Non-Licensed Activity annual financial statements for FY 17 is attached as Annexure II.

4.4 MSEZL is submitting its APR for FY 17 for kind consideration and approval of the Hon'ble Commission.

4.5 The performance of APR for FY 17 is presented under the following heads:

4.4.1 Operating Performance.

4.4.2 Financial Performance.

4.4.1 Operating Performance:

a. Energy Sales:

The actual vis-à-vis the approved sales are as follows:

	FY 17 Energy Sales (in MUs)	
Consumer Category	As Approved	Actual
HT Industrial	78.29	11.78
HT Construction	1.11	6.82
Total	**79.40**	**18.60**

MSEZL has achieved a growth of 31.73% in energy sales compared to FY 16 energy sales at 14.12MUs. However, in FY 17 the projected energy sales in HT Industrial energy sales could not be achieved due to the demand side constraints and poor off take of energy by the major bulk consumers in MSEZ due to delayed synchronization of their CPP with KPTCL Grid, which has occurred only in February 2017. Going forward in FY 18 the energy consumption by major bulk consumer has increased.

b. Power Purchase:

The purchase of power from MESCOM in FY 17 increased by 33.57% compared to FY 16 power purchase at 13.88 MUs. The Hon'ble Commission had approved power purchase of 80.49 MUs for FY 17 and the actual power purchase is 18.54 MUs. There is no supply side constraint, however as highlighted in (a) above the demand side constraint has resulted in non-drawing of power by MSEZL.

Source	As approved in - MUs	Actual Energy in – MUs
MESCOM	80.49	18.54

c. Distribution (Loss)/Gain:

In FY 17, 33KV and 11 KV consumers were provided with the following accuracy class meters, CTs and PTs.

Sl. No.	Number of consumers	Accuracy class meter
1	33 KV consumers – Two Consumers	0.2S accuracy class trivector energy meter, CTs and 0.2 class PTs
2	33 KV consumer – One Consumers	with 0.2s class trivector meter, 0.2class CTs and PTs
3	11 KV consumer – One Consumers	0.2S accuracy class trivector energy meter, CTs and 0.2 class PTs
4	11 KV consumers – Two Consumers	0.5Accuracy class trivector energy meters, CTs and PTs.

Further, MSEZL has estimated 0.76% distribution loss considering the distribution network and anticipated energy sales for FY 17.

All the consumers' trivector energy were tested and found to be within permissible limits of error but however, the actual distribution loss for FY17 is (0.32%). The main reason is recording of more energy due to positive permissible errors of metering equipment.

In this connection, officials from KPTCL, MESCOM and our Company have conducted a detailed joint inspection. The joint inspection analysis report is attached as Annexure III to the filing. The joint inspection has observed and it is pointed out that the negative distribution loss is due to positive errors in most of consumer's energy meters.

Considering the actual metered data of input and energy sales there is no distribution losses in FY 17. In fact, results are showing a negative distribution losses of 0.32% compared to negative distribution losses of 1.74% for FY 16. The details are as under:

Sl. No.	**Particulars**	**MUs**
1	POWER PURCHASE (MUs)	18.54
2	ENERGY AVAILABLE AT INTERFACE POINTS (MUs)	18.54
3	ENERGY SOLD (MUs)	18.60
4	DISTRIBUTION LOSS/(GAIN) (%) [(2-3)/2]	(0.32)

<u>Measures taken:</u>

Prior to synchronization of OMPL (our Consumer) CPP with KPTCL grid, the existing metering CTs of 0.2 classes have also been replaced with 0.2S class. For better recording of energy in the metering the CT ratios of some installations have been changed to the appropriate ratios considering their load currents.

Due to the above measures taken by MSEZL at present the distribution loss in MSEZL network has been observed to be positive and around 0.92 % which is line with the distribution loss approved by KERC for FY 18.

4.4.2 Financial Performance:

The actual financials for Licensed Activity vis-à-vis the approved ARR is as under:

Rs. in Crores

Ref Form-No	PARTICULARS	FY 17 ARR approved	FY 17 As per Audited Accounts	FY 17 – APR – Regulatory accounting
	POWER PURCHASE (MU)	80.49	18.54	18.54
T1/D1	ENERGY AVAILABLE AT INTERFACE POINTS (MU)	80.49	18.54	18.54

T2/D2	ENERGY SOLD (MU)	79.40	18.60	18.60
	DISTRIBUTION LOSS (%)	1.35%	(0.32%)	(0.32%)
	INCOME			
T2/D2	REVENUE FROM SALE OF POWER	54.83	17.81	17.81
T3/D3	TARIFF SUBSIDY FOR BJ/KJ & IP SETS		-	-
T3/D3	REV SUBSIDIES & GRANTS		-	-
T4/D4	OTHER INCOME	0.30	0.30	0.30
	TOTAL	**55.13**	**18.11**	**18.11**
	EXPENDITURE			
T1/D1	PURCHASE OF POWER	45.32	10.54	10.54
T5/D5	REPAIRS & MAINTENANCE		0.65	0.65
T6/D6	EMPLOYEES COSTS	1.23	0.49	0.49
T7/D7	ADM & GENERAL EXPENSES		0.28	0.28
T8/D8	DEPRECIATION AND RELATED DTS	1.52	2.73	2.73
T9/D9	INTEREST & FINANCE CHARGES	3.36	2.86*	4.10#
	SUB-TOTAL	**51.43**	**17.55**	**18.79**
T10/D10	LESS: EXPENSES CAPITALISED:	-	-	-
	-INTEREST & FINANCE CHARGES CAPITALISED	-	-	-
	-OTHER EXPENSES CAPITALISED	-	-	-
	SUB-TOTAL	**-**	**-**	**-**
T11/D11	OTHER DEBITS (incl. Bad debts)	-	-	-
T12/D12	EXTRAORDINARY ITEMS	-	-	-
	TOTAL EXPENDITURE	**51.43**	**17.55**	**18.79**
	PROFIT (LOSS) BEFORE TAX		0.56	0.68
	PROVISION FOR TAXES			
	Current Tax	-	-	
	Deferred Tax	-	1.48	-
	PROFIT (LOSS) AFTER TAX	3.7	**(0.92)**	0.68
T13/D13	NET PRIOR PERIOD Debits/Credits		-	
	RETURN ON EQUITY	**3.7**	**3.02**	**3.02**
	GAP	-	(3.94)	(3.70)

(*)The interest charge of Rs.2.86 Crores does not include interest on capital loan payable on normative debt portion as per the regulatory accounting.

(#) The interest charge of R.4.10 Crores includes interest on capital loan payable Rs.1.22 Crores on normative debt portion as per regulatory accounting (To Refer TABLE 'F' for details)

We would like to bring to the kind notice of the Hon'ble Commission the difference in the expenditure claimed on (i) Interest and Finance charges and (ii) Deferred tax under the heads 'FY As per Audited Accounts' and 'FY 17 – APR Regulatory accounting'. The reason for the differences under the two heads is as follows:

1. 'Interest & Finance Charges' – The auditor has considered only the actual interest expense of Rs.2.86 Crores and not the normative interest portion, which is allowed as per regulatory accounting. Thus, Rs.2.86 Crores is claimed under audited accounts and Rs.4.10 Crores is claimed as per regulatory accounting.
2. Deferred tax: The auditor has considered the deferred tax liability of Rs.1.48 Crores based on the accrual concept. Whereas, the same is not considered for regulatory accounting as the Hon'ble Commission allows only the actual income tax paid and not the provision made.

INCOME

4.4.2.0 Revenue from Sale of Power:

During the FY 17, MSEZL's energy sales increased by 31.73% and in relative terms the energy sold are 18.60 MUs. The revenue from sale of power in FY 17 is Rs.17.81 Crore. The summary of consumer category wise sales and revenue is as under:

Sl. No.	Consumer Category	Energy Sold in MUs	Revenue – Rs. in Crores
1	HT -33KV - Industrial	11.23	9.46
2	HT–33KV Temporary	4.15	4.64
3	HT–11KV - Industrial	0.55	0.78
4	HT–11KV Temporary	2.67	2.91
	Total	**18.60**	**17.79**
5	Add: Delayed payment charges	**-**	0.02
	Revenue from sale of power	**18.60**	**17.81**

4.4.2.0a Other Income:

MSEZL has accounted for accrued interest income Rs. 0.30 Crores receivable on security deposit kept with MESCOM.

The Hon'ble Commission had in the approved tariff order accepted the same for the purpose of tariff determination.

STATEMENT SHOWING DETAILS OF OTHER INCOME FOR FY 17		
Approved ARR – Rs. in Crore	Actual Income Rs. in Crore	Difference
0.30	0.30	-

A. EXPENDITURE

4.4.2.1 Power Purchase Cost:

The Hon'ble Commission in the approved tariff has approved the power purchase rate from MESCOM at Rs.5.63/kWh. Further, the FAC charged by MESCOM from to time during FY 17 is paid and forms part of power purchase cost.

In FY 17, MSEZL has sourced the entire power - 18,538,500 units from MESCOM only and has incurred power purchase cost of Rs.105,376,965 (including FAC charged by MESCOM).

The details are as under:

STATEMENT SHOWING DETAILS OF PP COST FOR FY 17				
Source	Approved ARR – in MUs	Actual Energy in– MUs	Power Purchase Cost Rs. in Cr.	Average PP/kWh
MESCOM	80.49	18.54	10.54	5.68

Note1: Apart from the approved retail supply tariff of Rs.5.63/kWh, MESCOM has additionally charged FAC and hence, the average PP/kWh works out to Rs.5.68/unit.

Note 2: The Hon'ble Commission while truing up the APR for FY 16 increased the PP cost for FY 16 by Rs.0.60 Crores, considering the actual source-wise power purchase reported by MESCOM for FY 16. Also, the Hon'ble Commission vide its order dated 26th October 2017 against RP No.08/2017 has allowed the entire deficit in the PP cost to be recovered from consumers.

Hence, for FY 17 if the Hon'ble Commission increases the PP cost we request that the entire revenue deficit in the PP cost to be recovered entirely from the consumers only.

4.4.2.2 O&M Expenses:

The consolidated O&M expenses comprises of (i) R&M Expense (ii) Employee cost and (iii) A&G General Expense. The Hon'ble Commission in its approved ARR allowed R&M expenses at 0.5% of GFA and allowed employee expenses and ADM & General with escalation by weighted inflation index of 7.24% over the base year data for FY 16.

In the light of the latest audited books of accounts for FY 17 and submission of best estimate of actual O&M expenses, we request the Hon'ble Commission to allow as under the O&M expenses as per actual for FY 17.

Rs. in Crores

STATEMENT SHOWING DETAILS OF O&M EXPENSES FOR FY 17		
Approved ARR	Actual Expenses	Difference
1.23	1.42	(0.19)

Note: (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.

Note: (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.

Note: (iii) Employee Cost includes the share of direct employee cost and shared Corporate Service Employee cost.

Since we have considered the actual O&M expenses, we request the Hon'ble Commission to allow the entire cost of Rs.1.42 Crores, as above.

4.4.2.3 Depreciation:

In accounting depreciation charge for FY 17, MSEZL has adopted the rates of as per Annexure III of CERC Notification 2009. Further, in FY 17 annual accounts titled 'significant accounting policies - on depreciation', it is specifically stated that depreciation on power distribution assets is based on the rates notified by CERC.

As depreciation charge is calculated applying the same rates as considered by the Hon'ble Commission and in the light of the latest audited books of accounts of FY 17, we request the Hon'ble Commission to allow as under the depreciation charge for FY 17.

STATEMENT SHOWING DETAILS OF DEPRECIATION FOR FY 17		
Approved ARR Rs. in Cr	Actual Charged Rs. in Cr	Difference Rs. in Cr
1.52	2.73	(1.21)

Note: The Hon'ble Commission in the approved tariff has considered only Rs.1.52 Crores, being the 50% of the depreciation charge (on a closing asset balance of Rs.59.66 Crores as on 31.03.2017 in Table 10 of Approved tariff) instead of depreciation charge of Rs.3.05 Crores, which should have been allowed

Statement Showing Details of Depreciation Charge for FY 17				
Particulars	Opening Balance of GFA as on 01.04.2016	Closing Balance of GFA as on 31.03.2017	Rate of Depreciation%	Depreciation allowance in Rs. Cr
Lease hold assets	6.17	6.17		-
Licensed Activity Building-Housing the Grid Substation	2.84	2.84	3.34%	0.09
Towers, Poles, fixture, overhead conductors, UG cables and devices-Package 2	33.87	33.89	5.28%	1.61
Plant and Machinery Substation Transformers, Circuit breakers, other fixed apparatus of rating 100 MVA and below	21.07	21.18	5.28%	1.00
Roads	0.87	0.87	3.34%	0.03
Other items	0.07	0.07		-
Total	**64.89**	**65.02**		**2.73**

Note: (i) Depreciation charge is calculated at 90% of average GFA i.e. (opening GFA *plus* closing GFA)/2.

4.4.2.4 Interest & Finance Charges:

- <u>Interest on Loan Capital</u>

The FY 17 interest of capital loan Rs.3.81 Crores for licensed activity is calculated out as under.

Table A

Sl. No.	Particulars	Details	Remarks
1	Weighted Average rate of interest on term loan – per annum	9.76%	As per Table C, below
2	Average borrowing for licensed activity – Rs. in Crores	26.51	As per Table B below
3	Actual Interest charge for FY 17 – Rs. in Crores (1*2)	2.59	
4	Normative Interest on excess equity investment in GFA – Rs. in Crores	1.22	As per Table E below
5	Total interest on loan as per regulatory accounting (3+4) – Rs. in Crores.	3.81	

Table B

Amount in Rs in Crore

Sl. No.	Particulars	As at 31.03.2017	As at 31.03.2016	Remarks
1	Long term capital loan	24.88	22.71	Refer Form A-2 & Form D-9 of the current tariff filing
2	Current maturities of long term loan	0.28	5.15	Refer Form A-2 & Form D-9 of the current tariff filing
3	Total Outstanding	25.16	27.86	
4	**Average Borrowings**		**26.51**	

The Weighted Average Interest on term Loans of MSEZL for FY 17 is as under:

Table C

Sl. No.	Particulars	Details	Remarks
1	Interest on Term loan Paid (A) - Amount in Rs.	56,73,20,631	Refer General Ledger extract attached as Annexure IV
2	Average Borrowings – Amount in Rs.	5,810,779,304	Refer Table D, below
3	Weighted Average rate of interest on term loan – per annum (1/2*100) for FY 17	9.76%	

Table D

Amount in Rs.

Sl. No.	Particulars	As at 31.03.2017	As at 31.03.2016	Remarks
1	Long term capital loan	5,725,713,299	4,648,254,661	Refer Annexure I – Note 22
2	Current maturities of long term loan	65,337,344	1,182,253,304	Refer Annexure I – Note 28
3	Total Outstanding	5,791,050,643	5,830,507,965	
4	**Average Borrowings**		**5,810,779,304**	

Considering the above submissions, it is respectfully prayed before the Hon'ble Commission to allow interest on capital loan claim of only Rs.2.59 Crore for FY 17. In this connection, we would like to draw the attention of the Hon'ble Commission to the following submissions:-

a) The interest on loan capital is computed based on the MSEZL's weighted average interest rate for FY 17 i.e.9.76% P.A. (Table C). The quantitative details in Table D are based on the MSEZL audited annuals accounts for FY 17, attached as Annexure I.

b) The loan outstanding for licensed activity is based on licensed activities average of opening and closing loan balances, as admitted [in Form A2 and Form D9] by the Hon'ble Commission in the earlier ARR filing. Thus, the average loan balance for FY 17 works out to Rs.26.51 Crores (Table B).

c) There are no fresh/new loans considered for licensed activity business in FY 17.

d) The existing loan balances in Balance sheet for licensed activity is based on debt balances at 46% (Refer Para 3.4 in Chapter 3) and interest claim for APR FY 17 is also restricted to Rs.2.59 Crores of interest on such debt balances. As regards allowability of interest on normative debt Rs.1.22 Crores please refer to Para 4.7 (d) and Para 4.8.

- **<u>Normative Interest calculation</u>:**

The clause 3.6 of KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of Electricity) Regulations, 2006 considers and allows the equity amount in excess of 30% GFA as being used to finance the acquisition of assets and allows interest thereof. The following are the workings for normative interest on excess equity capital.

Table E

Amount in Crores

Sl. No.	Particulars	Details
1	GFA as on 31.03.2017	65.03
2	30% of GFA (Eligible for allowances of RoE)	19.51
3	70% of GFA (Eligible for loan component)	45.52
4	Equity as on 31.03.2016	32.00
5	Equity in excess of 30% GFA – '4' – '2'	12.49
6	Weighted average of interest	9.76%
7	Interest eligible for allowance for FY 17	1.22

- Interest on Working Capital:

The Hon'ble Commission in the approved tariff has allowed normative interest on working capital. In FY 17, MSEZL has not incurred any interest on working capital; hence no interest towards working capital is claimed for licensed activity business.

Approved tariff Rs. in Cr	Interest on Working Capital Rs. in Cr	Difference Rs. in Cr
1.12	-	1.12

We wish to bring to the kind notice of the Hon'ble Commission that MSEZL's standalone Licensed activity business has negative cash & bank balance of Rs.1.53 Crores as at 31st March, 2017. In the business credit cycle this implies that an Rs.1.53 Crores fund is drawn from Bank for managing the day to day business working capital requirements. Notwithstanding this fact for APR FY 17, MSEZL is not claiming any normative interest on working capital for licensed activity business.

- Interest on Consumers Deposits:

MSEZL has made provision as at 31st March 2017 for interest on consumers' deposits. The interest calculation is made as per the KERC (Interest on Security Deposits) Regulations, 2005. The working is as under:

Sl. No.	Amount of security deposit	Period	Interest @ *7.75% P.A.	Remarks
1	Rs.3,71,94,480	365 days	Rs.28,82,572	Total amount of deposit as on 01.04.2016
2	Rs.2,49,287	Proportionate period (refer Note 4)	Rs.14,925	Deposit amount accepted during FY 17
Total	**Rs.3,74,43,767**		**Rs.28,97,497**	

Note1: The bank rate as on 01.04.2016 is **7.75% per annum**.
Note 2: A provision of Rs.0.29 Crores for interest payable to consumers is made in latest audited annual accounts - FY 17.
Note 3: The total deposits accepted and outstanding as at 31.03.2017 is Rs.3.74 Crore.
Note 4: The interest on deposit amount for (i) Rs.35,886 is provided for 151 days and (ii) Rs.2,13,401 is provided for 304 days.

Considering the above submissions, we request the Hon'ble Commission to allow us the actual Interest on consumers' deposits for FY 17.

STATEMENT SHOWING DETAILS OF INTEREST ON CONSUMERS DEPOSITS FOR FY 17		
Approved tariff – Rs. in Crore	Interest payable on Consumers Deposits Rs. in Cr	Difference Rs. in Cr
0.29	0.29	-

- **The statement on summary of interest and finance charge is as under:**

Table F

Amount in Rs. Crores

Sl. No.	Interest and finance charges	FY 17 ARR approved	FY 17 As per Audited Accounts	FY 17 – APR – Regulatory accounting
1	Interest on loan capital - **at actual**	1.95	2.57	2.59
2	Normative Interest on excess equity investment in GFA		-	1.22
3	Interest on working capital	1.12	-	-
4	Interest on consumers deposit	0.29	0.29	0.29
	Total	**3.36**	**2.86**	**4.10**

4.4.2.5 Tax Expense:

a. The deferred tax liability because of differential rates of depreciation under Income Tax Act, 1961 and CERC notified rates for licensed activity assets. The temporary taxable timing difference is recognized as deferred tax liability and provision is made for Rs.1.48 Crores for FY 17.

In light of the latest audited books of accounts for FY 17, we request the Hon'ble Commission to kindly take note of the deferred tax liability for FY 17.

STATEMENT SHOWING DETAILS OF DEFERRED TAX FOR FY 17		
Approved Tariff Rs. in Cr	Actual of Deferred Tax – Provided in books of accounts Rs. in Cr	Difference Rs. in Cr
NIL	1.48	(1.48)

Further, we would like to bring to the kind attention of the Hon'ble Commission that since the deferred tax liability is only a charge on P&L does not represent actual outgo of tax in FY 17, the charge of deferred tax Rs.1.48 Crore is not considered for determining/arriving at the 'GAP'/Revenue deficit of FY 17 and hence, the deferred tax is not proposed for recovery from the consumers.

4.4.2.6 Return on Equity:

The clause 3.9 of KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of Electricity) Regulations, 2006 considers and allows RoE restricting to 30% GFA. Hence, for APR FY 17 the RoE is worked out on normative equity of 30% of GFA as on 31.03.2017 Rs.65.03 Crores. The equity share capital as on 31.03.2017 is Rs.35.55 Crores.

STATEMENT SHOWING DETAILS OF RoE FOR FY 17	
Particulars	**Amount** Rs. in Cr
Equity Share Capital as per KERC norms – GFA as at 31.03.2017 is Rs.65.03 Cr*30%, normative equity	19.51
RoE @ 15.5%	3.02

We request the Hon'ble Commission to allow us the RoE of Rs.3.02 Crore for FY 17.

4.6 As per the above item-wise submissions of revenue and expenditure for FY 17 the revenue deficit of FY 17 Rs.3.70 Crores.

4.7 SUMMARY: APR for FY 17

a) MSEZL has managed the power distribution business within the efficiency parameters set by the Hon'ble Commission in the approved tariff. The Hon'ble Commission has allowed an ARR – Controllable expenses of Rs.9.51 Crores (excluding PP cost) against which MSEZL has incurred Rs.9.73 Crores (excluding PP cost) for FY 17, considering the inflationary impact on 'controllable expenses' in FY 17.

b) The energy sales in FY 17 increased by 31.73% over FY 16 energy sales. However, owing to demand side constraint the projected energy sales of 79.40 MUs could not be achieved. The energy sales of only 23.35% could be achieved in FY 17 (which is higher compared to 17.98% of energy consumed against the projected energy in FY 16).

c) In the cost stack-up for arriving at the revenue deficit of APR FY 17 the normative interest on working capital in not considered, notwithstanding the negative cash and bank balance.

d) The revenue deficit of Rs.3.70 Crores is composed of RoE of Rs.3.02 Crores and balance Rs.0.68 Crores out of Rs.1.22 Crores of normative interest on excess equity share capital.

4.8 Recovery of FY 17 revenue deficit of Rs.3.70 Crores:

The power distribution business is in the growth phase and considering the fact that new consumer with aggregate contract demand of 6.55 MVA is added to the business in FY 19, we expect the business to be robust in the coming years and thereby, we expect to achieve a steady growth in the intended sales volume. The business being in the growth phase and considering the business environment in which our consumers are operating, whose interest is of paramount to us, we propose not to recover the entire FY 17 revenue deficit of Rs.3.70 Crores, comprising of the following items.

Sl. No.	Particulars	Amount in Rs. Crores	Remarks
1	RoE	3.02	Entire RoE is foregone
2	Normative interest on	0.68	Out of Rs.1.22 Crores of interest (Table E above) only Rs.0.68 Crores is foregone and balance

	excess equity investment		amount of Rs.0.54 Crores is claimed as part of FY 17 APR, which may be allowed.
	Total	**3.70**	

However, any increase in revenue deficit on account of increase in FY 17 power purchase cost needs to be fully passed on and recovered from the consumers in FY 19.

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5. Revised Estimates for Y 18

The revised ARR for FY 18 is as under:

Particulars	**Approved ARR *** (Rs. in Cr)	**Provisional ARR** (Rs. in Cr)
Power Purchase **(!)**	49.49	25.63 (!)
R&M	1.30	1.37
Employees cost		
A&G		
Depreciation	2.73	2.75
Interest on capital loan **(^)**	3.67	3.46(^)
Int. on Working capital	1.15	0.70
Int. on consumer security deposit	0.25	0.22
RoE	3.02	3.02
Less: Other income	0.26	0.25
Approved Revenue	**61.35**	**36.90**
Add: Revenue deficit of FY 16 (#)	**0.98**	**-**
Projected Revenue	**62.33**	**36.90**
Expected Revenue		**31.27**
Projected Revenue Deficit		**5.63**

(*) The cost stack up is based on the Hon'ble Commissions order dated 26.10.2017 against RP No.08/2017.

(!) The provisional PP cost for FY 18 excludes the PP cost payable Rs.0.60 Crores as per order dated 26.10.2017 against RP No.08/2017.

(^)The interest and finance charge includes (i) actual interest charge for FY 19 Rs.2.27 Crores (ii) normative interest on excess equity investment Rs.1.19 Crores.

(#) The revenue deficit of FY 16 is allowed by the Hon'ble Commission to be claimed in the ARR of FY 19 and hence, this recovery is not taken in FY 18 provisional ARR.

The Hon'ble Commission vide its order dated 26th October, 2017 against the RP No.08/2017 has allowed carry forward the FY 18 net revenue deficit of Rs.2.93 Crores (excluding the FY 16 revenue deficit of Rs.0.96 Crores, which is also allowed in the said order to be carried forward) in to the ARR for FY 19.

We have another four months of operations during which the company will put in its best efforts to increase the revenue and try to reduce the revenue deficit to the best possible extent.

After the closure of the accounts for FY 18, the Company would be in a position to know the exact gap. The management of MSEZL would then examine the financial impact of this on the various stake holders and come back to the Hon'ble Commission with the true up application, for a decision on the recovery of the revenue gap. MSEZL considers the interest of its consumers as paramount and would like to minimize the impact of any increases, if it can be mitigated by the efforts required from it.

Besides, it is also our endeavour to ensure that the consumers of MSEZL are not in a disadvantages position (in terms of tariff parity) compared to the consumers of same class served by the DISCOM of the area.

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6. Sales Forecast

6.1 MSEZL has developed multi product SEZ (MSEZ) over an area of 1620acres. In MSEZ there are four major industries, which have already commenced their operations with a combined power demand of 17.25 MVA. In addition, MSEZL has concluded agreement with four new industries for setting up their plant in MSEZ and their combined power for construction is estimated at 6.55 MVA. Further, in order to cater to the industrial needs the following infrastructures are also developed inside the MSEZ which have a combined power demand of 1.91 MVA.

- Water treatment Plant for supply of treated water.
- Firewater Pump house for ensure continuous water supply against any unforeseen fire hazards.
- Marine outfall pump house for disposal of effluent water.
- 10ML pump house to augment water supply firewater pump house.
- Common Effluent Treatment Plant (CETP), Street lights and others.

6.2 Energy Sales for FY 19

a. MSEZL had given energy estimation of 84.60 MUs for FY 18, considering the fact that one of our major bulk consumers', post synchronization of their CPP with the Grid, would have an energy requirement of 70 MUs and also considering the fact that the major bulk consumer would draw power steadily as per the contract demand of 10 MVA at 33 KV.

b. However, as per current actual consumption pattern in FY 18 the major bulk consumer is consuming on an average 1,00,000 units per day and hence, we have considered the current level of consumption for estimating the FY 19 energy sales requirement.

c. The major bulk consumer upon synchronization of their CPP with the Grid is facing numerous interruptions due to (i) fluctuations of voltages and (ii) faults occurring in the KPTCL grid. In FY 18 (upto October 2017) we have observed 29 numbers of interruptions in the feeders at their end. Because of interruptions of the feeder at their end they have minimized their power drawal from the Grid. This has resulted in less than anticipated energy consumption by the bulk consumer in FY 18 and thereby, necessitating a revision in the energy sales for FY 19 to 52.27 MUs.

d. Further, we have considered the energy consumption pattern of the existing industries and also considered the power requirements of new upcoming industries.

The Company, considering the above facts, has made realistic energy sales projections for FY 19. The following table shows energy projection for the year FY 19.

Sl. No.	Consumer	Contracted Demand in MVA	Sales Estimate for FY19 in MUs
1	HT-Industrial	25.03	50.60
2	HT-Construction	0.30	1.04
3	LT-Construction *	0.28	0.40
4	LT-Industrial *	0.10	0.23
Total		**25.71**	**52.27**

Note (*) In the case of LT Construction the Contracted demand of 0.28MVA works out to be 238KW (0.28MVA X1000X 0.85) and for LT-Industrial the contracted demand of 0.096 MVA approximated to 0.10 MVA works out to be 81.6KW (0.096MVA X1000X 0.85) and tariff – fixed charges recovery for LT consumers in Chapter 14 is proposed at KW basis.

6.3 Consumer Growth:

The following table shows the overall consumer growth considered year on year.

Sl. No.	Tariff category	FY 17	FY 18	FY 19
1	HT-Industrial	7	10	13
2	HT-Construction	2	1	1
3	LT-Construction	0	3	4
4	LT-Industrial	0	5	4
Total		**9**	**19**	**22**

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7. Capital Investment Plan

The network diagram showing the existing distribution network is as under

7.1 In order to cater power supply to new upcoming industries, MSEZL has taken up the work of developing 33KV distribution network by providing 33KV UG cables and RMUs. The related capital works projected cost is as under:

Capital Expenditure Plan for FY -18			
Sl. No.	Description of Work	Purpose	Amount Rs. In Cr
1	Supply of 33 KV XLPE insulated PVC UG cable for providing power supply to units of MSEZ.	Providing Power Supply to New Industries	1.08
2	Installation of 33KV power Supply cables to the Battery limit of various Industrial Plots in MSEZ	Providing Power Supply to New Industries	0.63
		Total (*)	1.71

(*)The capex spending is considered in Form D-17 and shown under capital work in progress in Form A2. For FY 19 ARR the depreciation charge and RoE for the related capex works is not factored upon, which would done considering the actual cost and date of completion.

7.2 Considering the existing and new upcoming industries (which are expected to commission their plants by FY 20) the total power requirement in FY 20 becomes would be around 40MVA as against to the present station capacity of 32MVA (i.e.80% of 40MVA). Hence, MSEZL has proposed to augment the station capacity of 110/33/11KV GSS-03 in FY 19. The related capital works projected cost is as under:

Capital Expenditure Plan for FY -19		
Description of Work	Purpose	Amount Rs. In Cr
Supply of 33 KV XLPE insulated PVC UG cable for providing power supply to units of MSEZ.	Providing Power Supply to New Industries	0.06
Installation of 33KV power Supply cables to the Battery limit of various Industrial Plots in MSEZ	Providing Power Supply to New Industries	0.03
Augmentation of 110/33/11Kv Substation –	Providing Power	2.50

GSS-03 by providing additional 110/33KV, 40MVA transformer and other connected equipments	Supply to New Industries	
Total (#)		2.59

(#) The capex spending is considered in Form D-17 and shown under capital work in progress in Form A2. For FY 19 ARR the depreciation charge and RoE for the related capex works is not factored upon, which would done considering the actual cost and date of completion.

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8. Distribution Loss Trajectory

8.1 Current Profile of Distribution Loss:

Distribution loss of electrical network comprises of technical loss and commercial loss. At present commercial losses in the in the system are Nil since the area of operation and the number of consumers is limited. Most of the consumers of MSEZL are HV consumers and are fed through dedicated feeders there by giving no scope for pilferage and misuse of power. MSEZL has taken care to lay higher size cable to reduce voltage drops and energy losses while sanctioning the power through dedicated feeders. Further, to have stable power supply MSEZL has installed 11numbers of 11KV RMUs interlinked through 11KV UG cable of adequate cross sectional areas.

MSEZL also in the process of developing 33KV distribution network by installing 3numbers of 33KV RMUs inter connected through 33KV UG cables. While designing of this 33KV distribution network care has been taken to have 33KV cables of adequate cross sectional area to minimize voltage drop and to reduce distribution loss.

8.2 Distribution Loss Calculation:

Distribution Loss for FY 18

During FY 18 up October 2017 the exact distribution loss works out to be 0.92%. During this period the total energy purchased, energy sold and distribution losses are as per the following table:

Sl. No.	Total energy Purchased in MUs (A)	Total Energy Sold in MUs (B)	Energy Loss in MUs C=(A-B)	% Energy Loss D=(C/A*100)
1	23.05	22.84	0.21	0.92

Considering the same energy consumption pattern for the balance period of FY18 MSEZL will be achieving the distribution loss for the entire FY 18 at 0.86% which is line with distribution loss approved by the Hon'ble commission for FY18.

Distribution Loss for FY 19:

The distribution loss is projected at 1.4% considering the following factors:

- Considering the existing network and energy handled in the network for an FY 19 estimated energy sale of 45.13 MUs at a contracted demand of 19.16 MVA the distribution loss is assessed at FY 18 levels i.e0.86%.
- In FY 19, we have developed 33 KV distribution systems consisting of around 8 KMs of 33 KV UG cables of different sizes and RMUs.
- The four new 33 KV consumers in FY 19 would be availing an estimated energy of 7.13 MUs with a contract demand of 6.55 MVA.
- These proposed four new installations are situated at distance of 2.5 KMs to 4 KMs from 110/33/11 KV Grid Substation
- This results in additional demand of 34% and there is an increase o energy handling of 16%. Considering these factors the distribution loss is projected to increase by 0.54%.
- The distribution losses in the new network is projected at 1.4%

8.3 Current Profile of Distribution Losses:

Particulars	FY17	FY18	FY 19
33KV loss %	(0.26)	0.80	1.25
11KV loss %	(0.06)	0.05	0.13
LT loss %	-	0.01	0.02
Total Loss %	**(0.32)**	**0.86**	**1.40**

Note: The detailed computation of voltage wise loss as part of energy flow diagram is shown in D19

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9. Power Procurement Plan

9.1 The quantum of power requirement for FY 19 is 25.71MVA against the current sanctioned limit of 20MVA. Thus during FY19 MSEZL will approach MESCOM for enhanced requirement of power from 20MVA to 26MVA.

9.2 As at the date of filing this tariff application, MSEZL has not identified any sources for supply of power other than MESCOM. The quantum of energy requirement from MESCOM for FY 19 is as follows:

Sl. No.	Particulars	FY 19
1	Energy demand -in MVA	25.71
2	Energy Sales - in MUs	52.27
3	Distribution loss – in MUs	0.73
4	Energy Requirement – in MUs	53.00

Statement Showing Source- Wise Power Availability and Cost for FY 19						
Sl. No.	Particulars	Demand (MVA)	Demand Charges (Rs. In Cr.)	Energy (Mus)	Energy Charges (Rs. In Cr.)	Total Cost RS. In Cr.(Demand + Energy)
1	MESCOM	25.71		53.00	30.74	30.74
2	Others	-		-	-	-
Total		25.71		53.00	30.74	30.74

9.3 Key assumptions for power Procurement:

For FY 19

The Hon'ble commission has directed MSECOM to supply power at the 5% of its marginal PP cost in FY 16, FY 17 and FY 18. Since, we are not in a position to arrive at the 5% marginal cost of MESCOM for FY 19 we have not factored any increase in PP rate/kWh for FY 19. Hence, the PP rate of Rs.5.80/kWh of FY 18 is considered to arrive at energy charges of Rs.30.74 Crores.

Further, in the Chapter 13 titled 'Tariff Revision Proposal for FY 19', we are proposing for passing on the increased power purchase cost to our consumers, if the Hon'ble Commission determines PP rate over and above Rs.5.8/kWh, considered for arriving at the FY 19 energy cost.

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10. MYT Filing Common Issues

10.1 Segregation of fixed assets – Methodology followed

The capital expenditure booked is clearly identifiable as per the general ledger heads maintained by the Company. Voltage class wise segregation of fixed assets except land, buildings and civil works is made based on the exact nature and type of fixed asset. In respect of land, building and civil works it is apportioned at 60% for 33 KV and 40% for 11 KV based on their use.

Since, the licensed activity assets are capitalized in FY 16, which is also the first full year of commercial operations segregation percentage of FY 16 is considered for all the years prepared and presented in ARR.

Following table shows the composition of fixed assets for FY 17.

Sl. No.	Asset Type	33 KV	11 KV	LT	Retail Supply
1	Leasehold Land	3.70	2.47	0.00	0.00
2	Building and civil works	2.23	1.49	0.00	0.00
3	Plant & Machinery	33.04	22.03	0.00	0.00
4	Vehicles	0.00	0.00	0.00	0.00
5	Furniture's & Fixtures	0.00	0.00	0.00	0.00
6	Office Equipments	0.00	0.00	0.00	0.00
7	Other Items	0.04	0.03	0.00	0.00
	Total	**39.01**	**26.02**	**0.00**	**0.00**
	Percentage	**60%**	**40%**	**0%**	**0%**

10.2 Apportionment of expense – Methodology followed

Forum of Regulators had commissioned a study on "Standardization of Regulatory Accounts". The consultants have submitted their final report in 2012 (which is available in the FOR website). As per their recommendation, segregation of distribution business ARR into Wires business and supply business can be done as follows till such time the respective Electricity Regulatory Commissions review and customize the allocation ratios as proposed by the distribution licensed, depending on the cost structure of the respective licensed.

"Wires Business is the business of owning and operating of the distribution system, while Retail Supply Business is the business of procuring the requisite power through long term, medium-term, and short-term power purchase contracts for supplying to its consumers.

1. In case the appropriate Commission has specified the basis of allocation of expenses between Wires Business and Retail Supply Business in the notified Tariff Regulations, the same shall be considered for allocation of the expenses of the Distribution License.

2. In case the notified Tariff Regulations do not specify any basis for allocation of expenses between Wires Business and Retail Supply Business, the Distribution License shall follow a consistent basis of allocation ratios for apportionment of different components of Distribution ARR into Wires Business and Supply Business, after approval of the same by the appropriate Commission. The allocation ratios on which the different components of Distribution ARR may be apportioned are listed below. However, these allocation ratios may be reviewed and customised, depending on the cost structure of the respective Distribution License.

a. **"Power Purchase/Transmission/SLDC Expenses –** All these expenses relate to the Supply Business. Therefore, these should be allocated to Supply Business ARR.
b. **Employee Expenses:** Direct employees for Wires Business and Supply Business should be identified first and Employee Expenses related to these direct employees should be allocated to respective businesses. Thereafter, all common Employee Expenses relating to employees working for both the businesses can be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common Employee Expenses. However, till t**he time the segregation is complete, the Dis**tribution Licensed may apportion the Employee Expenses between Wires Business and Supply Business using an appropriate ratio. Since more employees are employed for Wires Business and the employees who work for Supply Business are lower as compared to Wires Business, the proportion of employee

cost allocated to Wires business should be higher than the proportion allocated to Supply business (say, 60:40, or 70:30).

c. **Repair and Maintenance Expenses:** Cost of spares, fuel etc. and cost of services related to wires business and supply business need to be separately recorded. Thus all direct R&M Expenses related to Wires Business and Supply Business should be allocated to the respective businesses. Thereafter all common R&M expenses can be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common R&M Expenses. However, until the time the segregation is complete, the Distribution License may apportion the R&M Expenses between Wires Business and Supply Business in the ratio 90:10.

d. **Administration and General Expenses:** All expenses like rents, electricity charges, water charges, internet charges, office upkeep, insurance charges etc. relating to offices for distribution business should be allocated to Supply Business, while that relating to distribution sub-stations/receiving stations should be allocated To Wires Business. Rates and taxes, Freight, and other purchase related expenses need to be allocated based on the goods purchased – whether for Wires Business or for Supply Business. All other A&G expenses, which are common to both Wires Business and Supply Business, can be apportioned using the allocation principles discussed for apportionment of common A&G Expenses. However, until the time the segregation is complete, the Distribution License may apportion the A&G Expenses using the ratio 50:50.

e. **Depreciation:** Major portion of assets of Distribution License would be relating to Wire Business, as sub-stations, HT and LT lines are for wheeling of electricity. Only the service connections and consumer meters, which are in the books of Distribution license, should be allocated to Supply Business. Thus if asset class wise break up of assets relating to Wires Business and Supply Business are available, then depreciation relating to direct assets of Wires Business and direct assets of Supply Business should be allocated to respective businesses. Depreciation on any common asset, if any can be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common depreciation. However, if only the overall asset break-up between Wires business and Supply business is available, then the depreciation has to be apportioned in the same ratio. Until the time the segregation is complete, the Distribution License may apportion depreciation for distribution business in the ratio 90:10.

f. **Interest on Loans:** All new loans availed by the License should be separate for Wires Business and Supply Business, based on the funding of the assets for Wires Business and Supply Business. In this way, interest on loans for Wires Business and Supply Business will be clearly identifiable and these should be allocated to respective businesses. Other interest charges, which are common to both Wires Business and Supply Business, should be apportioned using the allocation principles discussed for apportionment of common Interest and Finance Expenses. However, till the time the segregation is complete, the Distribution License may apportion interest on loans between Wires Business and Supply Business in the ratio 90:10.

g. **Interest on Working Capital:** All new Working Capital loans availed by the Distribution License should be separate for Wires Business and Supply Business. In this way, interest on Working Capital loans for Wires Business and Supply Business will be clearly identifiable and these should be allocated to respective businesses. Other interest on Working Capital which is common to both Wires Business and Supply Business can be apportioned using the ratio 10:90, as major portion of Working Capital loans belongs to supply business.

h. **Interest on Security Deposit:** Security deposits are collected by Distribution License from the consumers for supplying electricity to them; hence, the interest on Security Deposits should be allocated entirely to the Supply Business.

i. **Provision for Bad Debts:** Major part of bad debts relates to supply business. However, as it is not exactly possible to separate the bad debts between Wires Business and Supply Business, these expenses, if any can be apportioned between Wires Business and Supply Business using the ratio 10:90.

j. **Return on Equity:** RoE for both the businesses should be allowed based on the Equity invested separately for both the functions. Common RoE, if any should be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common RoE. In case equity invested for both the functions cannot be segregated clearly or till the time the segregation is complete, RoE can be apportioned between Wires Business and Supply Business using the proportion of GFA between Wires Business and Supply Business or using a suitable ratio, say 90:10.

k. **Income Tax:** Tax is a function of profit earned, i.e. return of a business, therefore, it should be apportioned on the basis of RoE related to Wires Business and Supply Business, as discussed for apportionment of Income Tax.

l. **Non-Tariff Income:** Non-Tariff Income resulting from meter rent, delayed payment charges, service connection charges etc. should be allocated to Supply Business, while income resulting from sale of scrap etc. should be allocated to Wires Business. Other common items of Non-tariff Income, if any can be apportioned using the allocation principles discussed for apportionment of revenues. However, till the time the segregation is complete, the Distribution License may apportion the Non-Tariff Income between Wires Business and Supply Business using the ratio 10:90."

Based on the above recommendations, pending a detailed study, we have used the following ratio for allocation of costs.

Allocation ratios proposed between wires and supply business				
Sl. No.	Description	Wires business	Supply business	Total %
1	Power purchase cost	0%	100%	100%
2	R&M expenses	90%	10%	100%
3	Employee cost	70%	30%	100%
4	A&G expenses	50%	50%	100%
5	Depreciation	90%	10%	100%
6	Interest on Loans	90%	10%	100%
7	Interest on consumer security deposit	0%	100%	100%
8	Interest on working capital	10%	90%	100%
9	Provision of bad debts	10%	90%	100%
10	RoE	90%	10%	100%
11	Non- tariff income	10%	90%	100%

Allocation of expenses within the wires business is made as under: -

Segregation of percentage with in wires business					
Sl. No.	Description	33 KV	11 KV	LT	Total
1	R&M expenses	54%	36%	0%	90%
2	Employee cost	42%	28%	0%	70%
3	A&G expenses	30%	20%	0%	50%
4	Depreciation	54%	36%	0%	90%

5	Interest on Loans	54%	36%	0%	90%
6	Interest on working capital	6%	4%	0%	10%
7	Provision of bad debts	6%	4%	0%	10%
8	RoE	54%	36%	0%	90%
9	Non- tariff income	6%	4%	0%	10%

Distribution percentage with in wires business					
Sl. No.	Description	33 KV	11 KV	LT	Total
1	R&M expenses	60%	40%	0%	100%
2	Employee cost	60%	40%	0%	100%
3	A&G expenses	60%	40%	0%	100%
4	Depreciation	60%	40%	0%	100%
5	Interest on Loans	60%	40%	0%	100%
6	Interest on working cap.	60%	40%	0%	100%
7	Provision of bad debts	60%	40%	0%	100%
8	RoE	60%	40%	0%	100%
9	Non- tariff income	60%	40%	0%	100%

Regulatory environment where all the income and expenses are trued up to actual (except a few items like O&M costs which are allowed as per indexation, distribution loss levels limited to approved loss %), scope achieving higher gains are limited. However, MSEZL proposes to share the gains and losses equally with its consumers.

10.3 Proposals for efficiency parameter targets

Since HT consumers constitute a significant portion of network, MSEZL would endeavor to achieve the prescribed standards of reliability and quality parameters. The regulatory reporting requirements of KERC would be complied by MSEZL by providing technical and financial data/information from time to time.

10.4 Proposals for rewarding efficiency in performance

We request Hon'ble Commission to issue necessary guidelines in this regard.

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11. ARR for Distribution Wires & Supply Business for FY 19

11.1 Power Purchase Cost:

The Hon'ble Commission in its tariff orders approved a retail power purchase rate from MESCOM as follows.

Sl. No.	Tariff Orders	Rate per unit
1	Tariff Order Dated 03rd March, 2015 – For FY 16	5.25
2	Tariff Order Dated 30th March, 2016- For FY 17	5.61
3	Tariff Order Dated 05th May, 2017 – For FY 18	5.80

The above rates were determined 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.

As explained in Chapter 9, the power supply for FY 19 is to be sourced from MESCOM and existing rates as approved by Hon'ble Commission in its order dated 05th May 2017 is taken as the base rate for arriving at the power purchase cost.

Statement Showing Details of Power Purchase Cost for FY 19 ARR			
Sl. No.	Particulars	Units of Measurement	Amount
1	Retail Purchase Supply tariff for FY 19	Rate per unit	5.80
2	Estimated Power Purchase Units	Million Units	53.00
3	Estimated Power Purchase Cost	Rupees in Crore	30.74

If the Hon'ble Commission approves PP rate higher than Rs.5.80/kWh the consequential increase in the ARR needs to be fully compensated through full recovery from our consumers.

Further, MSEZL is also currently paying FAC to MESCOM which is currently at 14 Paise/kWh. As the FAC cost is a pass through cost the same is not factored in the PP cost above (Refer Form D1). Besides FAC recovered from consumers is not included in the average realization rate of MSEZL (refer Form D2).

11.2 Operation and Maintenance Expenses:

The O&M expenses include viz., employee cost, Repairs & Maintenance Cost and A&G cost. The Hon'ble Commission has in Approved Tariff for FY 18 page 19-20 considered a weighted inflation index of 7.71% and efficiency factor of 0.50% to arrive at the O&M expenses for FY 18.

For the ARR requirement we have adopted a similar approach as considered by the Hon'ble Commission in FY 18 ARR. The reliance to arrive at the weighted inflation factor/index is placed on the CERC vide notification No. Eco T1/2017-CERC March 30, 2017 wherein the Annual Escalation Rate and Annual Inflation Rate for the period from 01.04.2017 to 30.09.2017 is notified. The details are as under.

Sl. No.	Statement Showing Details of Weighted Inflation factor	
1	CERC Notified escalation rates for the period 01.04.2017 to 30.09.2017	7.54
2	Annual Inflation Rate considered by CERC	5.36
3	Escalated Percentage (1*2)	0.40
4	Weighted inflation index (1+3)	7.94
5	Efficiency factor as considered by Hon'ble Commission	0.5
6	Total Weighted Inflation Factor (W.I.F) [4+(4*5)]	7.98

Further, the Hon'ble Commission regulations on O&M expense computation provides that for ARR purposes, O&M expense would be reckoned for the base year duly considering the growth in number of consumers, inflation and efficiency factor for each distribution licensee.

Considering the above facts, we have estimated the O&M for FY 19 on the following basis:

(1). The FY 18 O&M expense is reckoned as the base year for O&M expenses of FY 19 and (2). The FY 18 O&M expense is given an inflationary impact of 7.98% to arrive at the O&M of FY 19 as under.

Statement Showing Details of O&M Expenses for FY 19 ARR		
Sl. No.	Estimated O&M Expenses For FY 19	Amount Rs. in Cr.
1	Repairs & Maintenance	0.70
2	Employee Cost	0.53
3	Administration and General Exp.	0.22
4	**Total**	**1.45**

11.3 Depreciation:

The value base of asset for the purpose of depreciation is the historical cost of the asset. The depreciation for the purpose of ARR is computed as per the notified rates on the 90% average value of gross assets at the beginning and closing period of the financial year. The computation details are as under.

Statement Showing Details of Depreciation for FY 19 ARR						
Sl. No.	Particulars	GFA as at 31.03.2018 – Rs. in Cr	GFA as at 31.03.2019 Rs. in Cr	Average GFA – Rs. in Cr.	Rate (%)	Depreciation – Rs. in Cr.
1	Building	2.84	2.84	2.84	3.34%	0.09
2	Civil - Roads	0.87	0.87	0.87	3.34%	0.03
3	Substation	21.18	21.29	21.24	5.28%	1.01
4	UG Cables	33.89	33.89	33.89	5.28%	1.61
5	Others	0.07	0.07	0.07	-	-
Total		**58.85**	**58.96**	**58.64**		**2.74**

Note: The proposed capex works in FY 18 and FY 19 amounting to Rs.4.30 Crores is not included in the GFA and hence, no depreciation charge on Rs.4.30 Crores is claimed in FY 19 ARR. However, at the time of filing the actual for FY 18 and FY 19 the depreciation charged in the books of accounts, based on the actual cost and actual date of completion would be claimed accordingly.

11.4 Interest and Finance Charges:

i. Interest on Loan Capital

a) The FY 19 interest of capital loan is worked out as under.

Table A

Sl. No.	Particulars	Details	Remarks

1	Weighted Average rate of interest on term loan – per annum	8.4%	The current MCLR rate of SBI term loan and the loan spread is considered to arrive at the weighted average rate of interest.
2	Average borrowing for licensed activity – Rs. in Cr.	24.655	As per Table B below
3	Interest charge for FY 19 – (1*2) Rs. in Crore	2.08	
4	Normative Interest on excess equity investment in GFA – Rs. in Crores	1.08	As per Table C below
5	**Total interest on capital loan (3+4)**	**3.16**	

Table B

Amount in Rs. Crores

Sl. No.	Particulars	As at 31.03.2018	As at 31.03.2019	Remarks
1	Long term capital loan	24.44	23.87	Refer Form A-2 & Form D-9 for FY 19 of the current tariff filing
2	Current maturities of long term loan	0.43	0.57	Refer Form A-2 & Form D-9 for FY 19 of the current tariff filing
3	Total Outstanding	24.87	24.44	
4	**Average Borrowings**		**24.655**	

The Hon'ble Commissions tariff regulations of Clause 3.6 thereof allows equity in excess of 30% of GFA being used to finance the capital investment as loans advanced and allows interest as per provisions thereof. Accordingly, the normative interest on excess equity investment is claimed for ARR for FY 19 as under.

Table C

Sl. No.	Particulars	Amount in Rs. Crores	Remarks
1	Normative debt outstanding as at 31.03.2018 – Rs. in Crores	12.97	Refer D-9 for FY 19 of the current tariff filing
2	Normative debt outstanding as at 31.03.2019 – Rs. in Crores	12.75	Refer D-9 for FY 19 of the current tariff

			filing
3	Average debt balance (1+2)/2 – Rs. in Crores	12.86	
4	Weighted average rate of interest on term loan – per annum	8.4%	
5	Normative interest on excess equity investment – Rs. in Crores	1.08	Refer D-9 for FY 19 of the current tariff filing

ii. Interest on Working Capital Loan:

The working capital interest is calculated on normative basis, considering latest base rate notified by RBI plus 250 basis points. The latest available base rate declared by RBI is 8.95%/9.45% (as on 13th October 2017) is increased by 2.5% and 12% p.a. is considered as working capital interest rate.

Statement Showing Interest on Working capital for FY 19 ARR	
Details	Rs. In Cr
O&M expenses for one month	0.12
Spares at 1% on GFA at the beginning of the year - For FY 19 taken on closing year balance of FY18	0.65
Receivables equivalent to 2 months avg. billing	6.36
Total	**7.13**
SBI Base rate + 250 basis points (Rate as considered by KERC)	12%
Interest on Working capital	0.83

iii. Interest on Consumer Deposits:

The consumer's security deposit outstanding as at 31.03.2018 is expected to b Rs.3.46 Crores and interest of Rs.0.22 Crores is calculated as per the Hon'ble Commissions regulations at the Bank rate of 6.5% p.a.

The summary of interest and finance charge for FY 19 ARR is as under:

Sl. No.	Interest and finance charges	Amount in Rs. Crores
1	Interest on loan capital	3.16
2	Interest on working capital	0.78

3	Interest on consumers deposit	0.22
	Total	4.16

11.5 Return on Equity:

The equity base for the purpose of computation of ARR is restricted to an investment of 30% in capital expenditure i.e. GFA.

Statement Showing Details of RoE for FY 19 ARR	
Particulars	**Rs. in Cr**
Equity Share Capital as per KERC norms – GFA as at 31.03.2019 is Rs.65.15 Cr*30%, normative equity	19.55
ROE @ 15.5%	3.02

Note: The proposed capex works in FY 18 and FY 19 amounting to Rs.4.30 Crores is not included in the GFA and hence, no RoE is charged on Rs.4.30 Crores for FY 19 ARR. However, at the time of filing the actual for FY 18 and FY 19 the RoE based on the actual GFA will claimed accordingly.

11.6 Taxes income:

MSEZL being a SEZ developer is under a tax holiday period u/s.80-IAB. However, in case any tax (MAT) becomes payable, the same will be presented during the true-up exercise.

11.7 Non-tariff income, income from other business:

Based on the review of ledger accounts, the non-tariff income is nil.

11.8 It is submitted before the Hon'ble Commission to duly consider the ARR of MSEZL for FY 19, as above. The detailed workings in formats A1 to D24 is presented as annexure to these filings.

11.9 Considering the method of allocation of costs between wires and supply business in Chapter 10, the ARR of Wires and Supply Business is as under.

Table A:

STATEMENT SHOWING ARR FOR RETAIL SUPPLY BUSINESS		
Ref Form-No	**PARTICULARS**	**FY 19 – Rs. in Cr**
T2/D2	REVENUE FROM SALE OF POWER	38.17
T3/D3	TARIFF SUBSIDY FOR BJ/KJ & IP SETS	
T3/D3	REV SUBSIDIES & GRANTS *	
T4/D4	OTHER INCOME	0.22
	TOTAL	**38.39**

	EXPENDITURE	
T1/D1	PURCHASE OF POWER	30.74
T5/D5	REPAIRS & MAINTENANCE	0.07
T6/D6	EMPLOYEES COSTS	0.16
T7/D7	ADM & GENERAL EXPENSES	0.11
T8/D8	DEPRECIATION AND RELATED DTS	
T9/D9	INTEREST & FINANCE CHARGES	0.98
	SUB-TOTAL	**32.05**
T10/D10	LESS: EXPENSES CAPITALISED:	-
	-INTEREST & FINANCE CHARGES CAPITALISED	-
	-OTHER EXPENSES CAPITALISED	-
	SUB-TOTAL	**-**
T11/D11	OTHER DEBITS (incl. Bad debts)	
T12/D12	EXTRAORDINARY ITEMS	-
	TOTAL EXPENDITURE	**32.05**
	PROFIT (LOSS) BEFORE TAX	**6.33**
	PROVISION FOR TAXES	
	Current Tax	
	Deferred Tax	0.84
	PROFIT (LOSS) AFTER TAX	**5.50**
T13/D13	NET PRIOR PERIOD Debits	
	Sub Total	5.50
	ADD Expenses pertaining to wires business	9.79
A4	Equity & Reserve and Surplus	1.95
	RETURN ON EQUITY	0.30
	GAP	**(4.60)**

Table B:

STATEMENT SHOWING ARR FOR RETAIL WIREs BUSINESS		
Ref Form-No	**PARTICULARS**	**FY 19 – Rs. in Cr**
	REVENUE TO WIRES BUSINESS	9.79
T3/D3	REV/TARIFF SUBSIDIES & GRANTS	
T4/D4	OTHER INCOME	0.02
	TOTAL	**9.82**
	EXPENDITURE	
T1/D1	PURCHASE OF POWER	-
T5/D5	REPAIRS & MAINTENANCE	0.63
T6/D6	EMPLOYEES COSTS	0.37
T7/D7	ADM & GENERAL EXPENSES	0.11
T8/D8	DEPRECIATION AND RELATED DTS	2.74
T9/D9	INTEREST & FINANCE CHARGES	3.24
	SUB-TOTAL	**7.10**
T10/D10	LESS: EXPENSES CAPITALISED:	
	-OTHER EXPENSES CAPITALISED	-
	SUB-TOTAL	-
-T11/D11	OTHER DEBITS (incl. Bad debts)	-
T12/D12	EXTRAORDINARY ITEMS	-
	TOTAL EXPENDITURE	**7.10**

	PROFIT (LOSS) BEFORE TAX	2.72
	PROVISION FOR TAXES	
	PROFIT (LOSS) AFTER TAX	2.72
T13/D13	NET PRIOR PERIOD Debits	
A4	Equity & Reserve and Surplus	
	RETURN ON EQUITY	2.72
	GAP	**-**

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12. COBMINED ARR for FY 19

Ref Form-No	PARTICULARS	Units in Millions
	POWER PURCHASE (MU)	53.00
T1/D1	ENERGY AVAILABLE AT INTERFACE POINTS)	53.00
T2/D2	ENERGY SOLD	52.27
	DISTRIBUTION LOSS (%)	1.4%
	INCOME	**Rs. In Crores**
T2/D2	REVENUE FROM SALE OF POWER	38.17
T3/D3	TARIFF SUBSIDY FOR BJ/KJ & IP SETS	
T3/D3	REV SUBSIDIES & GRANTS	
T4/D4	OTHER INCOME	0.24
	TOTAL	**38.41**
	EXPENDITURE	
T1/D1	PURCHASE OF POWER	30.74
T5/D5	REPAIRS & MAINTENANCE	0.70
T6/D6	EMPLOYEES COSTS	0.53
T7/D7	ADM & GENERAL EXPENSES	0.22
T8/D8	DEPRECIATION AND RELATED DTS	2.75
T9/D9	INTEREST & FINANCE CHARGES	4.22
	SUB-TOTAL	**39.16**
T10/D10	LESS: EXPENSES CAPITALISED:	
	-INTEREST & FINANCE CHARGES CAPITALISED	
	-OTHER EXPENSES CAPITALISED	
	SUB-TOTAL	

T11/D11	OTHER DEBITS (incl. Bad debts)	
T12/D12	EXTRAORDINARY ITEMS	
	TOTAL EXPENDITURE	**39.16**
	PROFIT (LOSS) BEFORE TAX	0.75
	PROVISION FOR TAXES	
	Current Tax	
	Deferred Tax	0.84
	PROFIT (LOSS) AFTER TAX	**(1.59)**
T13/D13	NET PRIOR PERIOD Debits/Credits	
	RETURN ON EQUITY	**3.02**
	GAP	(4.61)

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13 A. Tariff Revision Proposal for FY 19

I. On FY 17 APR Revenue Deficit of Rs.3.70 Crores:

A. The management of MSEZL, as summarized in Para 4.8 above, does not propose to recover the entire revenue deficit of Rs.3.70 Crores from the consumers and thus, it is submitted before the Hon'ble Commission that Rs.3.70 Crores revenue deficit is fully absorbed by the Company.

B. The revenue deficit of Rs.3.70 Crores is after considering the actual power purchase cost of Rs.10.54 Crores incurred and paid by the Company to MESCOM in FY 17. If the Hon'ble Commission revises/increases the PP cost, based on MESCOM's APR for FY 17, the subsequent increase in PP cost payable by the Company to MESCOM should also be allowed to be recovered entirely from the consumers only for FY 19

II. Deficit of FY 18 carried forward by Hon'ble Commission as per order dated 26.10.2017 against Review Petition number 08/2017.

i. On the ARR filed by the Company in November 2016 for FY18 the Hon'ble Commission in its order dated 08th May 2017 approved an ARR of Rs.57.39 Crores and an average cost of supply of Rs.6.78/kWh.

ii. Subsequently, the Company filed a review petition and the Hon'ble Commission vide the order dated 26th October, 2017 has allowed an ARR FY 18 Rs.62.33 Crores.

iii. The Hon'ble Commission in its order dated 26th October, 2017 determined a net revenue deficit of Rs.3.91 Crores and has allowed to carry forward the net deficit to the ARR for FY 19 without disturbing the retail supply tariff already fixed for FY 18.

iv. The details of net revenue deficit of Rs.3.91 Crores is as under:

Table A

Sl. No.	Particulars	Amount in Rs. Crores
1	The net revenue deficit of FY 16 – including the Rs.0.60 Crores payable towards increase in MESCOM PP cost for FY 16	0.98
2	The net revenue deficit for FY 18	2.93
3	**Total Net Revenue Deficit decided by the Hon'ble Commission to be carried forward into FY 19**	**3.91**

Therefore, as per the Orders of the Hon'ble Commission the net revenue deficit of Rs.3.91 Crores has to be carried forward to the ARR of FY 19 and a necessary proposal for recovery is made.

III. Revenue Deficit as per ARR for FY 19:

The revenue for FY 19 from existing tariff is as follows.

Table B

Statement showing ARR for FY 19			
Sl. No.	Particulars	Details	Remarks
i	The existing i.e. FY 18 average realization rate per kWh	7.30	Refer Form D 21 & Form D2
ii	Projected sales for FY 19 in MUs	52.27	Refer Form D2
iii	Revenue for FY 19 from existing tariff (i*ii/10) – Rs. in Crores	38.17	Refer Form A1 and Form D 21
iv	Total ARR for FY 19	41.94	Refer RR GAP
v	Revenue deficit for FY 19 (iv-iii)	3.77	

IV. Combined Revenue Deficit for FY 19:

Table C

Statement showing combined ARR for FY 19			
Sl. No.	Particulars	Details	Remarks
i	The existing i.e. FY 18 average realization rate per kWh	7.30	Refer Form D 2
ii	Projected sales for FY 19 in MUs	52.27	Refer Form D2
iii	Revenue for FY 19 from existing tariff (i*ii/10) – Rs. in Crores	38.17	Refer Form A1 and Form D 21

iv	Revenue deficit for FY 19 – Rs. in Crores	3.77	As per Table B above
v	Total Net Revenue Deficit of FY 18 decided by the Hon'ble Commission to be carried forward into ARR of FY 19 - Rs. in Crores	3.91	As per Table A above
vi	Total Combined ARR for FY 19 – Rs. In Crores (iii+iv+v)	45.85	
vii	**Combined Revenue Deficit for FY 19 Rs. In Crores (vi-iii)**	**7.68**	

V. Impact of Combined Revenue Deficit of Rs.7.68 Crores for FY19 on consumer's.

Table D

Statement showing calculation of average realization rate per kWh for FY 19				
Sl. No.	Particulars	Details	Rate per kWh (for 52.27 MUs)	Remarks
i	The existing i.e. FY 18 average realization rate per kWh		7.30	As per Table B above
ii	Revenue Deficit for FY 19 – Rs. in Crores	3.77	0.72	As per Table B above
iii	The carry forward net deficit of FY 18 (including FY 16 revenue deficit of Rs.0.98 Crores) allowed to the ARR for FY 19	3.91	0.75	As per Table A above
iv	Total Revenue Deficit for FY 19 Rs. in Crores (ii+iii)	7.68	1.47	
v	**The average realization rate per unit required for FY 19 (i+ iv)**		**8.77**	

VI. Company's Analysis on the Recovery of Revenue Deficit:

A. <u>On FY 17 APR:</u>

- As submitted in Para 4.8 the Company's management, keeping the consumers interest as paramount has proposed to absorb entire RoE of Rs.3.02 Crores and Rs.0.68 Crores of normative interest on capital loan. The management as a one-time relief measure is making this submission before the Hon'ble Commission.

- However, any increase in the power purchase cost of FY 17 at the time of approving the FY 17 APR the same increase shall be passed on to the consumers fully and recovered in FY 19.

B. On net revenue deficit of FY 18 Rs.3.91 Crores to carried into FY 19:

- Having analyzed the revenue deficit of FY 16, FY 17 and FY 19 the management of MSEZL understands that the entire revenue deficit of Rs.1.47/kWh cannot be fully passed on to our consumers as it would increase their tariff by 20%.
- However, it is a point to be recognized that MSEZL consumers did not have any tariff increase in FY 18 and in fact there was a reduction of 13 paise/kWh. In fact the average cost of supply of our consumers for FY 18 is Rs.7.30/kWh vis a vis Rs.7.74/kWh for the similarly placed consumers of DISCOM.
- The FY 18 revenue deficit of Rs.3.91 Crores includes FY 16 additional power purchase cost of Rs.0.60 Crores payable to MESCOM. The Company proposes to recover Rs.0.60 Crores from the respective consumers directly in proportion to their actual energy metered in FY 16 as a one-time payment.
- Out of balance revenue deficit Rs.3.31 Crores (Rs.3.91 Crores *minus* Rs.0.60 Crores) the Company is of the considered opinion that it should propose for recovery such amount that would be required to ensure parity with the similarly placed consumers of DISCOM. This requires an increase of 45 paise/kWh in FY 19.
- The 45 Paise/kWh increase in FY 19 ARR would realize only Rs.2.35 Crores. Thus, there would be shortfall in collection of Rs.0.96 Crores (Rs.3.31 Crores *minus* Rs.2.35 Crores). The Company would be proposing, for recovery of Rs.0.96 Crores after considering the actual performance of FY 18 APR.
- With an increase of 45 paise/kWh of FY 18 ARR, the consumers of MSEZL in FY 19 would pay at tariff levels of FY 18 of the DISCOM. In effect the ***shortfall in revenue recovery of FY 18 from the consumers of MSEZL*** is postponed and getting partially recovered in FY 19.

C. <u>On FY 19 Rs.3.77 Crores revenue deficit recovery</u>:

- The management is proposing 15 paise/kWh increase for FY 19 ARR. Though the revenue deficit of Rs.3.77 Crores requires an increase of 72 paise/kWh.
- The PP cost for FY 19 is worked out at FY 18 approved PP rate of Rs.5.80/kWh. Thus, any increase in ARR for FY 19 due to consequential increase in PP cost the same should be fully recovered from the consumers.
- The 15 paise/kWh proposed for FY 19 ARR would result in a revenue collection of Rs.0.78 Crores against a required amount of Rs.3.77 Cores resulting in shortfall to collect Rs.2.99 Crores. The Company would come before the Hon'ble Commission with a proposal to recover Rs.2.99 Crores after considering the actual performance of FY 19 APR.

D. Financial Impact of the Company's analysis of on recovery of Revenue Deficit

Rs. in Crores

Sl. No.	Particulars	Revenue Deficit	Impact on Company	Impact on Consumers
		A	**B**	**C**
1	Proposal to absorb the entire revenue deficit of FY 17 (excluding PP cost increase if any) as discussed in Chapter 4 Para 4.8, Chapter 13 Para I, Chapter 13A Para VI (A)	3.70	3.70	-
2	Proposal for recovery of Net revenue deficit of Rs.3.91 Crores for FY 18 - approved and directed to be carried forward by Hon'ble Commission to the ARR of FY 19 – as discussed in Chapter 13A Para II and Para VI (B)			
	i. The PP cost of FY 16 (being direct cost paid to MESCOM and collected from Consumers) – (please refer Table E , below for workings)	0.60	-	0.60
	ii. The balance revenue deficit discussed in Chapter 13A Para VI (B)	3.31	0.96	2.35
3	Proposal for FY 19 ARR – as discussed in	3.77	2.99	0.78

	Chapter 13A Para VI (C)			
4	Total financial impact	11.38	7.65	3.73

VII. Company's Proposal for FY 19 ARR.

i. The present tariff proposal for FY 19 is put before the Hon'ble Commission to achieve equilibrium in the business whereby the consumer's interest is protected and also to enable the Company to manage the business economically and make it financially viable and sustainable for the future.

ii. Hence, it is proposed before the Hon'ble Commission to allow an ARR for FY 19 as under:

Statement showing details of ARR for FY 19			
Sl. No.	Particulars	Amount Rs. in Crores	Remarks
i	The power purchase cost of FY 16	0.60	Refer Table E below
ii	The ARR for FY 19	41.30	Refer Table F below
iii	**Total proposed ARR for FY 19 (i+ ii)**	**41.90**	

- **Proposal for recovery of Rs.0.60 Crores of FY 16 power purchase cost:**

The Hon'ble Commission has directed to pay FY 16 PP cost of Rs.0.60 Crores to MESCOM and also proposed to pass on the entire deficit of the PP cost of Rs.0.60 Crores to the consumers in the order dated 26th October, 2017. Hence, out of the ARR of FY 19 Rs.41.90 Crores, Rs.0.60 Crores is separately proposed for recovery from consumers in the ratio/proportion to the individual/consumers energy consumption actually metered in FY 16. Accordingly, the following is proposed for recovery from the respective consumers as a one-time payment.

Table E

Sl. No.	List of Consumers	Energy consumed in FY 16 (In Units)	Amount of power purchase cost payable – Amount in Rs.
1	ONGC Mangalore Petrochemicals Limited	2,37,100	1,00,749
2	Cardolite Speciality Chemicals LLP	57,92,080	24,61,192
3	Indian Strategic Petroleum Reserves Limited	59,08,440	25,10,636
4	JBF Industries	20,02,960	8,51,105
5	MSEZL Utilities	1,79,602	76,317

	Total	**1,41,20,182**	**60,00,000**

- **Proposal for recovery of FY 19 ARR of Rs.41.30 Crores**

Table F

Sl. No.	Particulars	Projected energy in FY 19 Units in Millions	Average Realization Rate Rs. per kWh	ARR for FY 19 – Rs. in Crs.
		A	B	C = A*B
1	Revenue for FY 19 from existing tariff	52.27	7.30	38.17
2	FY 18 net revenue deficit carried forward into FY 19 and proposed for recovery.	52.27	0.45	2.35
3	FY 19 standalone revenue deficit proposed for recovery.	52.27	0.15	0.78
4	**Total ARR proposed for FY 19 (1+2+3)**		**7.90**	**41.30**

Note: The FAC paid/payable to MESCOM and the collected/to be collected from consumers is not forming of ARR Rs.41.30 Crores, as it is a pass through.

The Company is proposing an ARR recovery of Rs.41.30 Crores (including Rs.2.35 Crores of FY 18 revenue deficit carried forward into ARR of FY 19) at an average realization rate of Rs.7.90/kWh against the required combined ARR of FY 19 Rs.45.85 Crores at an average realization rate of Rs.8.77/kWh.

VIII. The tariff structure for the FY 19 tariff proposal is detailed in Chapter 13 B.

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13 B. Tariff category and rates Proposed for FY 19

i. The Company is proposing to introduce a new category 'LT-Construction' and is also proposing to bill the consumers in LT category – Industrial and Construction a fixed charge based on per KW basis.

ii. As detailed in Chapter 13A, the ARR for FY 19 being Rs.41.90 Crores out of which Rs.0.60 Crores being the direct power purchase cost of FY 16 is proposed for recovery from consumers at their actual energy consumption in FY 16, as detailed under Para VII Table E in chapter 13A.

Further, as narrated under Para VII Table F in Chapter 13A, the tariff category and rates for FY 19 is proposed to recover balance FY 19 ARR of Rs.41.30 Crores.

iii. The tariff proposal for recovery of Rs.41.30 Crores of FY 19 ARR is presented before the Hon'ble Commission as under:

Table A

STATEMENT SHOWING TARIFF CATEGORY AND RATES AS EXISTING									
Sl. No.	Tariff Category	Type of installation	No. of consumers	Sanctioned load (MVA)	Consumption MUs	PARTICULARS	RATE (Rs)	AMOUNT (Rs. Cr)	Realisation/ Unit
1	HT	Industrial	13	25.03	50.60	Fixed	200	4.51	

						Charges/KVA			7.23
						Energy Charges	6.34	32.08	
2	HT	Construction	1	0.30	1.04	Fixed Charges/KVA	230	0.06	9.62
						Energy Charges	9	0.94	
Total HT Consumers			**14**	**25.33**	**51.64**			**37.59**	**7.28**
3	LT	Industrial	4	0.28	0.40	Fixed Charges/KVA	230	0.06	10.50
						Energy Charges	9	0.36	
4	LT	Construction	4	0.10	0.23	Fixed Charges/KVA	190	0.02	6.96
						Energy Charges	6	0.14	
Total LT Consumers			**8**	**0.38**	**0.63**			**0.58**	**9.21**
Total (HT +LT)			**22**	**25.71**	**52.27**			**38.17**	**7.30**

Table B

STATEMENT SHOWING TARIFF CATEGORY AND RATES AS PROPOSED									
Sl. No.	Tariff Category	Type of installation	No. of consumers	Sanctioned load (MVA)	Consumption MUs	PARTICULARS	RATE (Rs)	AMOUNT (Rs. Cr)	Realisation/ Unit
1	HT	Industrial	13	25.03	50.60	Fixed Charges/KVA	200	4.51	7.83
						Energy Charges	6.94	35.12	
2	HT	Construction	1	0.30	1.04	Fixed Charges/KVA	230	0.06	10.58
						Energy Charges	10	1.04	
Total HT Consumers			**14**	**25.33**	**51.64**			**40.73**	**7.89**
Sl. No.	Tariff Category	Type of installation	No. of consumers	Sanctioned load (KW)	Consumption MUs	PARTICULARS	RATE (Rs)	AMOUNT (Rs. Cr)	Realisation/ Unit
3	LT	Industrial	4	238	0.40	Fixed Charges/KW	280	0.06	11.50
						Energy Charges	10	0.40	
4	LT	Construction	4	81.6	0.23	Fixed Charges/KW	90	0.01	6.52
						Energy Charges	6	0.14	
Total LT Consumers			**8**		**0.63**			**0.61**	**9.68**

TOTAL ARR for FY 19 (HT+LT)	**22**		**52.27**				**41.34**	**7.91**

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14. Proposal to offer Volume Incentive scheme to MSEZ consumer/s

I. MSEZL is proposing to offer this incentive to for the high tension consumers

A. Hon'ble Commission is aware that, the Company through its power distribution network has been endeavoring to supply a quality, reliable and continuous power to the esteemed consumers in MSEZ. Besides, providing land for setting up of a 220/110/11 KV KPTCL sub-station in MSEZ area, the Company has been taking several initiatives to enhance the quality of supply viz., (i) laying of double circuit of 110 KV cable from 220/110/11 KV KPTCL station with one spare of cable (ii) Ring Main Circuits of 33/11 KV distribution network. Also, the Company has requested KPTCL for enabling the second circuit of 220 KV double circuit line from Kemar to Kavoor. The upstream the 220/110/11 KV receiving station of KPTCL sources power through this 220 KV Double circuit line. This has improved the quality of power and has contributed to reduction in the number of interruptions in the grid at our end (down stream).

B. With a required eco-system in place, the Company is now poised to leverage the strengths and add value to offer our esteemed High-tension consumers production base by encouraging power consumption from our grid through a scheme of volume incentive.

C. 'Scheme of Volume Incentive', the purpose of this scheme is to encourage our high tension consumers production line with a reduced input cost, to shore up the top-line revenue of the Company from the revenue surplus, ***without disturbing the ARR proposed for FY 19*** and benefit other consumers in the MSEZ with a further reduced rate from surplus revenue mobilization.

D. This scheme of volume incentive is not forming part of our ARR for FY 19 at Rs.41.90 Crores at an estimated energy sale of 52.27 Mus and hence, this is an additional proposal to the ARR for FY 19 for the reasons outlined in Para above.

E. Based on the approval of KERC for implementation of the scheme, MSEZ would offer the same to its consumers. Willing consumers can opt for this scheme and avail the benefits, which would create a win-win situation for both the parties.

Further, this scheme is proposed considering the facts and circumstances of the business scenario projected in FY 19 and hence, is applicable for the year under review i.e. FY 19 only.

II. The Scheme for Volume Incentive for FY 19 is outline as under:

1. This proposal is only for our esteemed high-tension consumer/s whose energy consumption ***during the financial year*** starting 01 April 2018 and ending 31 March 2019 exceeds the threshold limit of 50 Million Units **and;**
2. The incentive would be given only for those incremental units consumed in excess of 50 Million Units **and;**
3. The incentive would be only for those units consumed/drawn during the time of the day - 10 AM to 6 PM and not during the other time of the day. Further, provided that the consumer should have recorded the incremental energy consumption during this time of the day only **and**
4. The incentive is 75 Paise/kWh less than the ***avera*g*e realization rate*** approved for the high-tension consumers approved by the Hon'ble Consumers for FY 19.
5. The conditions in 1,2, and 3 all should be read together and all the three conditions be satisfied in order to be eligible for 75 paise/kWh incentive.

For brevity an illustration is given as follows. We submit that the working is only an illustration and should not to be read and understood as other-wise and the illustration is not representative of a particular consumer's energy consumption or industrial needs.

A consumer ABC Limited in MSEZ consumes power as under

		Time of the day consumption				
		1	2	3	4	
Month	Monthly consumption - MUs	06.00 Hrs to 10.00 Hrs	10.00 Hrs to 18.00 Hrs	18.00 Hrs to 22.00 Hrs	22.00 Hrs to 06.00 Hrs next day	Total
Apr-18	1.50	0.25	0.30	0.10	0.85	1.50
May-18	2.00	0.20	1.00	0.30	0.50	2.00
Jun-18	3.00	0.50	1.50	0.50	0.50	3.00
Jul-18	3.50	0.50	1.50	0.50	1.00	3.50
Aug-18	4.00	0.75	2.00	0.25	1.00	4.00
Sep-18	4.00	0.50	1.80	0.20	1.50	4.00
Oct-18	5.00	1.80	1.00	0.20	2.00	5.00
Nov-18	5.00	1.00	2.50	1.00	0.50	5.00
Dec-18	7.00	0.50	2.00	1.00	3.50	7.00
Jan-19	7.00	1.00	1.75	2.00	2.25	7.00
Feb-19	9.00	1.00	3.75	2.00	2.25	9.00
Mar-19	9.00	1.00	2.00	2.00	4.00	9.00
Total	**60.00**	**9.00**	**21.10**	**10.05**	**19.85**	**60.00**

In the above illustration ABC limited would be eligible for incentive of 75 paise/kWh, for the reasons outlined as under:

Condition 1: Energy consumption during the period April 2017 to March 2018 exceeding 50 Million units

Reply: ABC Limited during April 2017 to March 2018 has consumed 60 Million Units, hence scheme is to be applicable to ABC Limited, subject to conditions 2 and 3. ABC Limited has by February 2019 consumed 51 Million Units and hence, eligible for the incentive.

Conditions 2 and 3: Incentive shall be given for incremental energy consumption and time of day

Reply: ABC Limited has during April 2018 to March 2019 consumed 60 Million Units and hence, the incentive shall be applicable for incremental consumption of 10 Million Units (60 Million Unit *minus* 50 Million Units). Further, ABC Limited has consumed 21.10 Million Units in the specified time of day 10 AM – 6 PM. Hence, the incremental energy of 10 Million Units would be assumed to have been consumed entirely in this time of day and hence, eligible for incentive.

Condition 4: 75 Paise/kWh on the average realization rate per unit.

Reply: In the tariff petition submitted before the Hon'ble Commission for FY 19, the average realization rate for HT – Industrial Consumer is proposed at Rs.7.83/kWh. Assuming that the Hon'ble Commission approves this rate then on 10 Million Units the rate charged would be Rs.7.08/kWh (Rs.7.83/kWh minus Rs.0.75/kWh).

III. Other Points on the scheme

1. Since, this is scheme is in proposal stage only, and is not yet offered to our consumers, we have not considered the financial impact in the current tariff filing.
2. If the Hon'ble Commission approves the scheme, the Company would explore the option of implementing the scheme and if, any consumer is willing to take benefit under the scheme the Company would inform the Hon'ble Commission about such arrangement, and reflect such benefits, if any, accrued to the Company, in the APR of FY 19.

15. Prayer

MSEZL with averments made in the respective Chapters of the present application duly detailing the revenue requirements and expected revenue from the existing tariff charges, respectfully prays the Hon'ble Commission to:-

1. Pass appropriate order for FY 17 based on APR submitted and detailed in chapter 4.

2. Consider the tariff structure/ proposal detailed in the Chapter-13 A and read with Chapter 13 B, and approve tariff proposed in this Tariff Application, duly considering the submission made by MSEZL for recovery of revenue deficit as per the Hon'ble Commissions order dated 26th October, 2017 and ARR of FY 19.

3. Consider the Proposal to offer Volume Incentive scheme to MSEZL consumer/s as outlined and submitted in Chapter 14 and pass appropriate orders.

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 MSEZL.

For **Mangalore SEZ Limited**

Place: Mangalore

Date: 24.11.2017

Authorized Signatory