

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

Sri M.K.Shankaralinge Gowda	Chairman
Sri H.D.Arun Kumar	Member
Sri D.B.Manival Raju	Member

ORDER**In the matter of determination of ARR for Control Period FY17- FY19
And Retail Supply Tariff in respect of AEQUS SEZ Private Limited.****1. Background:**

M/s AEQUS Pvt. Ltd , Special Economic Zone, situated at Hattargi Village, Hukeri Taluk, Belagavi District, has filed an Application for approval of Annual Revenue Requirement for FY17, FY18 and FY19 and approval of Retail Supply Tariff for FY 17 under Section 61 & 62 of the Electricity Act,2003 read with relevant Regulations of the KERC (Tariff) Regulations including KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006.

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

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

2. Licensee's Profile:

The AEQUS SEZ Private Limited (formerly Quest Global SEZ Private Limited) (hereinafter referred as AEQUS SEZ) is company incorporated under the Companies Act, 1956. The Company is engaged in development, maintenance, leasing and operation of industrial infrastructure and facilities. The AEQUS SEZ is India's first sector specific-"Precision Engineering" industry situated in Hattargi village, Belagavi District.

Currently the AEQUS SEZ has 17 approved units including FTWZ units, which are in operation and a few are under construction likely to commence operation. The expected exports from the AEQUS SEZ is likely to be more than USD 65 million in financial year 2015-16 and expected employment of more than 2000 people in the zone. It is stated that MNCs & Aerospace giants such as Airbus, Boeing, SAAB, Rolls Royce, EATON, Good Rich, Magellan etc., are likely to set up unit/joint ventures/supply source in related field of Aerospace & Engineering goods and services at AEQUS SEZ.

At present energy is sourced from the HRECS through dedicated 11KV feeders from the KPTCL's sub-station at Hattargi. The SEZ Campus is ensured with stable, uninterrupted power supply through HUB-SPOKE System with multiple Ring Main Units (RMU) and this is also backed by standby high capacity DG sets for back-up power to ensure uninterrupted power to the Units set up within the AEQUS SEZ. However, to cater the growing needs of the industrial units at AEQUS SEZ, establishing 110/11 KV Substation by the KPTCL is under consideration.

3. Consumers' Profile:

The consumers' Profile of AEQUS SEZ is as follows:

TABLE - 1
AEQUS Consumer's Profile

Sl. No.	Industrial	Load (KVA)	Units (KWh)
1	Aerospace Processing India Pvt. Ltd	700	7,87,279
2	Aerostructure Manufacturing India Pvt. Ltd.	550	16,62,710
3	UFI Filters India Pvt. Ltd.	80	37,315
4	Indo Shottle India Pvt. Ltd.	500	2,95,480
5	SQUAD Forging India Pvt. Ltd.	500	1,28,700
6	Aerosture Assembly India Pvt. Ltd	150	74,350
7	Aequs Pvt. Ltd II	63	3,32,419
8	Aequs Pvt. Ltd III	53	2,04,237
9	Aequs Automotive Pvt Ltd	50	1,05,034
10	QuEST Global Engineering India Pvt.Ltd.	200	2,73,259
	Total -A	2,846	39,00,783
	Common facility		
11	Security Block	-	1,06,275
12	SEZ Utility	-	25,942
13	Canteen Block	30	5,089
	Total -B	30	3,33,847
	Total	2,906	43,71,936

(Data for FY16 April, 2015 to September, 2015)

4. Background for filing the Tariff application:

The AEQUS SEZ, in its letter dated 8th October, 2012, had approached the Commission requesting for allotment of bulk power and to fix tariff for the bulk power for developing an eco- system for Aerospace Engineering and manufacturing in India.

The Commission, in its letter dated 5th November, 2012, informed the SEZ that, in terms of the GoI Notification dated 03.03.2010, AEQUS SEZ is a deemed licensee and that for according it the status of a deemed licensee, it has to remit necessary licence fee of Rs.10 lakhs per year from the date of notification i.e. 3.3.2010, as per the KERC (Fees) Regulations, 2004, along with necessary document as per KERC Licensing Regulations. It was directed to file an application for approval of ERC and determination of Tariff. It was also directed to file necessary documents required as per KERC (Licensing) Regulations 2000.

The AEQUS SEZ, in its letter dated 16th October, 2014, informed the Commission that, its area of operation is limited and confined to AEQUS SEZ premises of about 260 acres and is having only 9 units with a recorded maximum demand of 1300 KVA. It is requested the Commission to reconsider the levy of licence fee and extend concession to it. However, the Commission had again directed the AEQUS to remit the fee and file required documents.

In January, 2015, the AEQUS SEZ paid a sum of Rs.10 lakhs towards the fee and again requested for giving concession in the licensing fee. It informed the Commission that they are in the process of preparing and filing the MYT application and sought time to file the same.

The Commission thereafter, has accepted the fee of Rs.10 lakhs and decided to take up the matter of extending concession in the licensing fee, at the time of issue of tariff order for FY17 and directed the deemed licensee to file the tariff application with necessary documents. Thereafter, the AEQUS SEZ filed necessary documents before the Commission. However, vide its letter dated 10th June 2015, the AEQUS SEZ had requested the Commission to exempt it from filing tariff application for the previous years and stated that as part of tariff exercise, it would capture data for FY16 (base year for the control period) and file the ARR and Tariff application for FY17-19. Accordingly, the AEQUS has filed its ARR and Tariff application on 30.11.2015 under the provisions of the MYT Regulations.

In its application, AEQUS SEZ has prayed for approval of ARR for the Control Period FY17-19 and retail supply tariff for FY17.

5. Acceptance of Applications and Consultation Process:

The Commission in its letter dated 15th December, 2015 communicated its preliminary observations on the tariff application. The AEQUS SEZ, in its letter dated 23rd December, 2015 furnished its replies.

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

Accordingly, the AEQUS SEZ has published the summary of application on 20th and 21st January, 2016, in Indian Express, and Kannada Prabha respectively. The Commission published a Notice of Public Hearing on 9th February, 2016, in Deccan Herald and Vijayavani. In response, the Commission received five written objections.

The Commission has held a Public Hearing on 2nd March, 2016, at AEQUS SEZ, Hattargi village, Hukeri to elicit the views of the stakeholders. The details of written and oral objections, the response of AEQUS SEZ and the Commission's views thereon are as under:

6. Public consultation:

In pursuance of the provisions of Section 64 of the Electricity Act, 2003, the Commission undertook the process of public consultation, in order to obtain suggestions/views/objections from the interested stake-holders, on the application of ERC and ARR for FY17, FY18 and FY19 and Retail Supply Tariff Application for FY17, under the MYT Principles, filed by AEQUS.

In the written submissions as well as during the Public Hearing some of the stake-holders have raised objections to the Tariff applications filed by the AEQUS SEZ. The names of the persons who have filed written objections and made oral submissions are given below:

List of persons who filed written and oral objections: -

Sl. No	Application No.	Name & Address of Objectors
1	AQ-01	Sri. Shankaranarayanan N, General Manager, Aerospace Processing India Pvt Ltd
2	AQ-02	Sri. Sreevatsa.G, General Manager, AEQUS Engineered Plastics Private Ltd.
3	AQ-03	Sri. Arun Kumar.K.S., General Manager, Squad Forging India Pvt Ltd.
4	AQ-04	Sri. Radhakrishnan V, Deputy General Manager, Aerostructures Manufacturing India Pvt Ltd.
5	AQ-05	Sri. Yogesh Fuldevare, Plant Head, Indo Schottle Auto Parts Pvt. Ltd.

The gist of the objections, replies by the licensee and the views of the Commission is shown below:

Objections related to Tariff Issues:		
Sl. No.	Objections	Replies by the Licensee
1	The AEQUS should reduce its capex and power purchase cost. AEQUS' power purchase cost is inclusive of T&D charges of local DISCOM/ Transmission agency and their energy losses. A separate capex towards creating transmission assets will have double impact on its consumers.	The AEQUS is in discussion with HRECS for construction of substation in the SEZ area by to be established by the KPTCL, so that, SEZ will procure the power in an economical way, as is being done by other distribution licensees.
	Commission's Views: The reply furnished by the AEQUS SEZ is acceptable.	
2	AEQUS being a distribution licensee has proposed new transmission line and substation including manpower requirement which will increase the tariff within SEZ. As these costs are already included in the power purchase cost, SEZ has to work with	The AEQUS is discussing with HRECS for supply power at approved pricing model similar to other deemed licensees in the State. The AEQUS is in discussions with HRECS and KPTCL towards establishing a substation for procurement of

	Transmission agency (KPTCL) to establish the substation without burdening SEZ.	power in future.
	Commission's Views: The reply furnished by the AEQUS is acceptable.	
3	The power purchase cost entered of the SEZ at Rs.6.79 per unit with Rs.170 as MD charges is on a higher side compared to the cost per unit in other distribution companies. The SEZ should enter into long term contract for power supply at bulk rates and pass on the benefit to its consumers.	The AEQUS is in discussion with HRECS for construction of a substation in the SEZ area by the KPTCL, so that, SEZ will procure the power in an economical way as done by other distribution licensees.
	Commission's Views: This aspect has been dealt with in this Tariff Order.	
4	The proposed revision of Tariff by the AEQUS at Rs.10.28 per KWh is detrimental to manufacturing activity in the SEZ. Hence, the AEQUS has to find alternative source of energy at competitive rates.	The AEQUS is evaluating all possible options to ensure power supply at economical rate to all its consumers. The AEQUS is holding discussion with the HRECS and the KPTCL for power supply to the SEZ.
	Commission's Views: This aspect has been suitably dealt with in this Tariff Order	

7. Filing of ERC and Tariff applications for the Control Period FY17-19

The AEQUS SEZ in its filing had indicated an ARR of Rs.9.50 Crores, Rs.12.77 Crores, and Rs.16.60 Crores for FY17, FY18 and FY19 respectively.

However, it has filed a revised ARR on 22nd February, 2016, based on a Memorandum signed with the HRECS, for buying power as per marginal cost at 5%.

The summary of its filing as per the revised application is as under:

TABLE -2
Proposed ARR for FY17-19

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Power Purchase (MU)	12.98	17.78	23.46
Energy @ IF Point (MU)	12.98	17.78	23.46
Sales (MU)	12.72	17.38	22.90
Distribution Loss (MU)	0.26	0.40	0.56
Distribution Loss in %	2.04%	2.23%	2.41%
Revenue			
Revenue From Sale of Power	9.89	13.31	17.31
Total Revenue	9.89	13.31	17.31
Expenditure			
Power Purchase Cost	7.59	9.93	12.84
Employee Expenses	0.41	0.54	0.58
R&M Expenses	0.06	0.10	0.38
A&G Expenses	0.32	0.35	0.12
Total O&M Expenses	0.79	0.99	1.08
Depreciation	0.29	0.47	0.67
Interest & Financing Charges			
Interest on Capital Loan	0.76	1.10	1.46
Interest on Working Capital loans	0.20	0.27	0.34
Interest on Consumer Deposit	0.10	0.13	0.18
Return on Equity	0.35	0.64	0.99
Other Income	0.18	0.22	0.26
Net ARR	9.89	13.31	17.31

8. Determination of ARR for FY17-19:

The analysis of the expenses and decision of the Commission on each of the expenditures of the AEQUS are discussed below:

i) Sales:

The AEQUS SEZ in its application has estimated sales of 12.72MU for FY17, 17.38 MU for FY18 and 22.90MU for FY19. The number of installations is projected at 16 for FY17, 18 for FY18 and 21 for FY19. All the installations fall

under industrial category except one installation for common facilities. Since, the AEQUS SEZ has projected the number of installations and sales duly considering its present status and progress of facilities created within its premises, the Commission has considered the sales projections as indicated by the AEQUS SEZ for the control period.

ii) Distribution Losses:

The AEQUS SEZ in its application has projected the following distribution losses for the Control Period:

Particulars	FY17	FY18	FY19
% Distribution Losses	2.04	2.23	2.41

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

iii) Power Purchase cost:

AEQUS's Submission:

The energy requirement proposed for the control period is 12.98 MU, 17.78 MU and 23.464 MU for FY17, FY18 and FY19 respectively and the same is proposed to be procured from the Hukeri RECS. The power purchase cost is indicated as

Rs.7.59 Crores, Rs.9.93 Crores and Rs.12.84 Crores respectively for the said period.

Commission's analysis and decision:

In respect of MSEZL, a similarly placed deemed licensee, for FY16, the Commission had approved power purchase rate of Rs.5.25 per unit considering 5% of MESCOM's total power purchase at the generation bus. For computing the total power purchase cost at 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 was considered. This included a trading margin of 5 paise per unit to be paid by the MSEZL to the MESCOM, for the energy supplied by MESCOM.

In the revised ARR filed by the AEQUS SEZ, it is submitted that, they have entered into a Memorandum with HRECS to purchase power, similar to the formula applied in respect of MSEZL, Mangalore which is buying power from the MESCOM. Considering this, the Commission has adopted a similar approach for the AEQUS SEZ as well. Under this approach, 5% of the energy requirement of the HESCOM has been considered and 95% of the said 5% is considered from regular sources and 5% from short-term sources, based on merit order from highest to lowest rates. However, for FY18 and FY19, since short-term purchases are not envisaged, the succeeding sources of generation as per merit order is reckoned to work out the power purchase cost for the full 5% energy. Accordingly, the computation of power purchase cost for the control period is shown in the following tables:

TABLE - 3

Cost of Power purchase for FY17

Amount in Rs.Crores

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of HESCOM	636.11				
95% of Requirement	604.30				
BTPS2	594.25	86.40	197.38	283.79	4.78
BTPS1	10.06	1.05	3.69	4.74	4.72

Short-term	31.81	0	16.03	16.03	5.04
Total PP cost @ 5%	636.11	87.46	217.10	304.56	4.79
Transmission & SLDC Charges			40.01	40.01	0.63
Total PP & Transmission cost	636.11	87.46	257.11	344.57	5.42
Trading margin at 5 paise per unit			3.18	3.18	0.05
Total cost	636	87.46	260.29	347.75	5.47
Energy at Interface point (Tr.loss-3.47%)	614.04				5.66

TABLE - 4

Cost of Power purchase for FY18

Amount in Rs.Crores

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of HESCOM	671.01				
BTPS2	639.74	91.70	216.75	308.44	4.82
BTPS1	31.27	3.19	11.70	14.89	4.76
Total PP cost @ 5%	671.01	94.88	228.45	323.33	4.82
Transmission & SLDC Charges		00	39.04	39.04	.58
Total PP & Transmission cost	671.01	94.88	267.48	362.37	5.40
Trading margin at 5 paise per unit		0	1.45	1.45	0.05
Total cost	671.01	94.88	267.48	362.37	5.45
Energy at Interface point(Tr.loss-3.37%)	647.72				5.65

TABLE - 5

Cost of Power purchase for FY19

Amount in Rs.Crores

Particulars	Energy in MU	Fixed cost	Variable cost	Total cost	Per unit Cost
5% Requirement of HESCOM	700.75				
BTPS2	625.89	88.31	216.29	304.60	4.87
BTPS1	74.86	7.78	28.58	36.36	4.86
Total PP cost @ 5%	700.75	96.09	244.87	340.96	4.87
Transmission & SLDC Charges		0	41.96	41.96	0.60
Total PP & Transmission cost	700.75	96.09	286.84	382.92	5.46
Trading margin at 5 paise per unit		0	3.50	3.50	0.05
Total cost	700.75	96.09	290.34	550.36	5.51
Energy at Interface point(Tr.loss-3.27%)	676.43				5.71

The above rate payable to the HRECS includes a margin of 5 paise per unit besides transmission charges payable to the KPTCL and the PGIL. The transmission losses from the generating sources to the IF point has also been factored in. **Hence, the Commission hereby approves the power purchase rate of Rs.5.66, Rs.5.65 and Rs.5.71 per unit of energy at the IF point, for FY17, FY18 and FY19 respectively payable to the HRECS.**

The HRECS has requested to allow 20 paise (as against five paise/kWh) as trading margin, along with fixed charges of Rs.170/ per KVA. The Commission notes that, as per the CERC Notification No. L-7/25(5)/2003-CERC dated 11th January, 2010, the maximum trading margin allowable is seven paise per unit, in case the sale price Rupees three rupees per kWh and four paise, in case the sale price is less or equal to three rupees per kWh. This margin includes all the charges except the charges for scheduled energy, open access and transmission losses. Keeping this in view, the Commission has allowed five paise margin to be paid by the HRECS to the HESCOM against its power purchases. Similarly, the Commission has allowed 5 paise margin for the power purchase made by the MSEZL from the MESCOM. The Commission therefore, has considered a margin of five paise to be paid by the AEQUS SEZ to the HRECS, in terms of the Memorandum signed between the AEQUS SEZ and HRECS. As indicated above the trading margin includes all other charges and therefore the claim of HRECS to allow fixed charges of Rs.170 per KVA is not justified. It is also to be pointed out that for the purchase of power from the HESCOM, the HRECS is not paying any fixed cost to the HESCOM. Hence, for these reasons, the claim for fixed charges is not tenable and hence not accepted.

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

TABLE – 6**Approved Sales and Power Purchase Cost**

Year	Sales in MU	Energy at IF point	PP rate at IF point Rs .Per unit	Total Power Purchase cost in Rs.Crs
FY17	12.72	13.89	5.66	7.86
FY18	17.38	19.02	5.65	10.75
FY19	22.90	25.10	5.71	14.33

Based on the above computation, the Commission hereby approves power purchase cost of Rs.7.86 Crores, Rs.10.75 Crores and Rs.14.33 Crores for FY17, FY18 and FY19 respectively.

iv. **O & M Expenses:**

The AEQUS SEZ has claimed O & M costs as follows:

TABLE - 7**O & M Expenses – AEQUS SEZ Proposal**

Amount in Rs. Crores

Particulars	FY17	FY18	FY19
Employee Expenses	0.41	0.54	0.58
Repairs & maintenance Expenses	0.06	0.10	0.38
General Administration Expenses	0.32	0.35	0.12
Total	0.79	0.99	1.08

Commission's analysis and decision:

The Commission has considered the projected O&M expenses of FY16 as the base year data and escalated the same by weighted inflation index of 7.24% and efficiency factor of 0.5% to arrive at the allowable O & M expenses for the Control Period. The approved O&M expenses for the Control Period are as follows:

TABLE - 8

Approved O & M Expenses – FY17-FY19

Amount in Rs. Crores

Particulars	FY16	FY17	FY18	FY19
Weighted Inflation Index	7.24%	7.24%	7.24%	7.24%
Base Year O&M Cost (as per filed data of FY16)	0.60			
Allowable O&M expenses		0.64	0.68	0.73

Accordingly, the Commission approves O & M expenses of Rs.0.64 Crores, Rs.0.68 Crores and Rs.0.73 Crores for FY17, FY18 and FY19 respectively.

v. Depreciation:

The AEQUS SEZ has claimed depreciation for the control period as follows:

Amount in Rs. Crores

Particulars	FY17	FY18	FY19
Depreciation	0.22	0.47	0.67

Commission's analysis and decision:

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

TABLE – 9

Approved Depreciation for FY17-19

Amount in Rs. Crores

Particulars	FY16	FY17		FY18		FY19	
	Closing Balance of Asset as on 31.03.2016	Closing Balance of Asset as on 31.03.2017	Depcn	Closing Balance of Asset as on 31.03.2018	Depcn	Closing Balance of Asset as on 31.03.2019	Depcn.
Buildings	1.54	1.54	0.03	1.54	0.03	1.54	0.03
Civil		0.00	0.00	0.00	0.00	0.00	0.00
Plant & Machinery	2.64	6.35	0.17	10.45	0.28	14.70	0.39

Line, Cable Network including plant/machinery	0.56	0.56	0.02	0.56	0.02	0.56	0.02
Furniture	0	0.03	0.00	0.03	0.00	0.03	0.00
Office Equipment	0.03	0.03	0.00	0.03	0.00	0.03	0.00
Total	4.77	8.51	0.22	12.61	0.33	16.86	0.44
Less Depreciation on consumer contribution	0	0	0	0	0	0	0
Net Depreciation	4.77		0.22		0.33		0.44

Thus the Commission approves depreciation of Rs.0.22 Crores, Rs.0.33 Crores and Rs.0.44 for FY17, FY18 and FY19 respectively.

vi. Interest on loans:

The AEQUS SEZ has claimed interest on loans of Rs.0.76 Crores, Rs.1.10 Crores and Rs1.46 Crores for FY17, FY18 and FY19 respectively.

Commission's analysis and decision:

The Commission has considered the amount of loans, repayments and new loans, as furnished by the AEQUS SEZ. The Commission notes that the rate of interest indicated on the average loans during FY15 and FY16 is 15.03% and 14.75% respectively. This rate of interest is abnormally higher as compared to the prevailing interest rates.

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

TABLE – 10
Approved Interest on Loan for FY17-19

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Secured Loans	4.10	6.29	8.61
Total	4.10	6.29	8.61
Add new Loans	2.38	2.87	2.98
Less Repayments	0.19	0.55	0.98
Total loan at the end of the year	6.29	8.61	10.61
Average Loan	5.20	7.45	9.61
Interest proposed on long term loans	0.76	1.10	1.46
Interest Rate as filed in %	14.63%	14.77%	15.19%
Interest Rate as allowed in %	14.17%	13.83%	13.64%
Approved Interest on Capital Loans	0.74	1.03	1.31

Thus, the Commission decides to approve interest on capital loans of Rs.0.74 Crores, Rs.1.03 Crores and Rs.1.31 Crores for FY17, FY18 and FY19 respectively.

vii. Interest on Working Capital Loans:

The AEQUS SEZ has claimed interest on working capital loans of Rs.0.13 Crores, Rs.0.20 Crores and Rs.0.34 Crores for FY17, FY18 and FY19 respectively. As per the norms specified under the MYT Regulations, the Commission has computed the interest on working capital which consists of one month's O & M expenses, 1% of opening GFA and two months' revenue. The approved interest on working capital loans are as follows:

TABLE – 11
Approved Interest on Working Capital Loans - FY17-19

Particulars	Amount in Rs. Crores		
	FY 17	FY 18	FY 19
One-twelfth of the amount of O&M Exp.	0.05	0.06	0.06
Opening GFA as per Audited Accts	4.78	8.55	12.65
Stores, materials and supplies 1% of Opening balance of GFA	0.05	0.09	0.13
One-sixth of the Revenue	1.65	2.22	2.89
Total Working Capital	1.75	2.36	3.07
Rate of Interest (% p.a.)	11.75%	11.75%	11.75%
Approved Interest on Working Capital Loan	0.21	0.28	0.36

Thus, the Commission decides to approve interest on working capital of Rs.0.21 Crores, Rs.0.28 Crores and Rs.0.36 Crores for FY17, FY18 and FY19 respectively.

viii. Interest on Consumer Security Deposits:

The AEQUS has claimed the interest on security deposit of Rs. 0.10 Crores for FY17, Rs.0.13 Crores for FY18 and Rs. 0.18 for FY19.

Commission's analysis and decision:

In accordance with the KERC (Interest on Security Deposit) Regulations 2005, the interest rate on consumer security deposit to be allowed is the bank rate prevailing on the 1st of April of the financial year for which interest is due. As per Reserve Bank of India notification dated 29th September, 2015, the bank rate is 7.75%. This being the latest available bank rate, the Commission has considered the same for computation of interest on consumer deposits for FY17-19.

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

TABLE – 12
Approved Interest on Consumer Security Deposits for FY17-19

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Opening Balance of Consumer Deposits	1.27	1.73	2.29
Rate of Interest	7.75%	7.75%	7.75%
Allowable Interest on Consumer Security Deposit	0.12	0.16	0.20

ix. Return on Equity (RoE):

Return on Equity claimed by the AEQUS SEZ for the Control Period is as follows:

Amount in Rs. Crores

Particulars	FY17	FY18	FY18
Return On Equity	0.35	0.64	0.99

Commission's analysis and decision:

The Commission, in accordance with the provisions of the MYT Regulations has considered 15.5% of Return on Equity duly grossed up with the applicable Minimum Alternate Tax (MAT) of 21.342%. The Commission has considered 30% of total value of gross assets (GFA), as certified by the Chartered Accountant, as the equity base, for the purpose of computing the RoE. This works out to 19.706% per annum. The approved Return on Equity for FY17-19 is computed as follows:

TABLE – 13**Approved Return on Equity for FY17-19**

Particulars	Amount in Rs. Crores		
	FY17	FY18	FY19
Equity based on 30% of the opening balance of GFA	2.57	2.57	2.57
Reserves and Surplus	-0.63	-0.33	0.02
Total equity	1.94	2.24	2.59
Approved Return on Equity with MAT	0.38	0.44	0.51

Thus, the Commission decides to approve Return on Equity of Rs.0.38 Crores, Rs.0.44 Crores and Rs.0.51 Crores for FY17, FY18 and FY19 respectively.

x. Other Income:

The AEQUS SEZ has indicated other income of Rs. 0.18 Crores, Rs.0.22 Crores, and Rs.0.26 Crores for FY17, FY18 and FY19 respectively and the Commission considers the same for the purpose of ARR of the Control Period.

Based on the approved items of expenditure as discussed above, the total ARR for FY17-19 is as under:

TABLE – 14**Approved ARR for FY17-19**

Amount in Rs. Crores

Particulars	FY17	FY18	FY19
Power Purchase Cost	7.86	10.75	14.33
O&M Expenses	0.64	0.68	0.73
Depreciation	0.22	0.33	0.44
Interest & Financing Charges			
Interest on Capital Loan	0.74	1.03	1.31
Interest on Working Capital loans	0.21	0.28	0.36
Interest on Consumer Deposit	0.12	0.16	0.20
Return on Equity	0.38	0.44	0.51
Other Income	0.18	0.22	0.26
Net ARR	9.98	13.44	17.62

The Commission hereby approves Net ARR of Rs.9.98 Crores, Rs.13.44 Crores and Rs.17.62 Crores for FY17, FY18 and FY19 respectively.

9. Average Cost of Supply:

Based on the above approved ARR, the average cost of supply for FY17-19 is as follows:

TABLE – 15**Average Cost of Supply**

Year	Approved Net ARR Rs. Crores	Sales(MU)	Average Cost of Supply Rs. per unit
FY17	9.98	12.72	7.85
FY18	13.44	17.38	7.73
FY19	17.62	22.90	7.69

10. Extending concession in Licensing Fee:

As discussed in para-3 above, the AEQUS SEZ has paid Rs.10 lakhs towards licensing fee. As the AEQUS SEZ is a deemed licensee w.e.f 03.03.2010, it should pay the licensing fee for seven years. After paying part of the fee, the AEQUS SEZ has requested for extending concession in the licence fee. The Commission is not in favor of total waiver of the fee. However, considering the

fact that it would impose a huge burden on the finances of small SEZ units, the Commission has considered extending concession in the present licensing fee structure, as a special case and decides to fix a licensing fee of Rs.1.50 lakhs per annum. At this rate, the AEQUS SEZ shall have to pay an amount of Rs.10.5 lakhs for seven years, towards licensing fee. Hence, the Commission directs the AEQUS to pay the balance amount of Rs.50,000/- immediately.

11. Retail Supply Tariff for FY17:

AEQUS Proposal:

The AEQUS SEZ has proposed to approve tariff assuming the power purchase cost similar to other deemed licensees as follows:

Category	Particulars	Rate
HT Industrial	Fixed Charges/KVA	170.00
	Energy Charges Rs/kWh	8.00
HT Common Facilities/Construction	Fixed Charges/KVA	170.00
	Energy Charges Rs/kWh	6.50

Commission Analysis and decision:

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

Approved Retail Supply tariff for FY17

Particulars		Approved Tariff
HT Industrial / Common facilities		
	Fixed Charges/KVA/month	180
	Energy Charges Rs/kWh	6.55
HT Construction		
	Fixed Charges/KVA/month	200
	Energy Charges Rs/kWh	9.00

12. Commission's Order

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

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

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

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