CHAPTER – 2

REVISED ANNUAL REVENUE REQUIREMENT FOR FY19

1. Revised Annual Revenue Requirement (ARR) for FY19

MSEZL's Application:

MSEZL in its application dated 28th November, 2017, has sought approval of the Commission for the revised ARR and retail supply tariff for FY19. The summary of the proposed revised ARR for FY19 is as follows:

TABLE – 2.1

Revised ARR for FY19 – MSEZL Proposal

Rs. Crores

Particulars	FY19
Energy at IF Point (MU)	53.00
Sales (MU)	52.27
Distribution Loss (MU)	0.74
Distribution Loss in %	1.40%
Revenue	
Revenue From Sale of Power	38.17
Expenditure	
Power Purchase Cost	30.74
Employee Expenses	0.53
R&M Expenses	0.70
A&G Expenses	0.22
Total O&M Expenses	**1.45**
Depreciation	2.75
Interest & Financing Charges(net)	
Interest on Capital Loan	3.17
Interest on Working Capital	0.83
Interest on Consumers' Security Deposit	0.22
Return on Equity	3.02
Other Income	0.24
Net ARR	**41.94**

The MSEZL has requested the Commission to approve the revised Annual Revenue Requirement of Rs.41.94 Crores for FY19. Considering the estimated revenue of Rs.38.17 Crores based on the existing retail supply tariff, MSEZL has projected revenue gap of Rs.3.77 Crores for FY19. However, as discussed in the previous Chapter of this Order, as the MSEZL has decided to absorb the gap in revenue of Rs.3.70 Crores of FY17, the net gap in revenue for FY19 is

Rs.3.77 Crores. In order to bridge this gap in revenue, MSEZL, in its application has requested the Commission to revise the retail supply tariff for FY19.

Annual Performance Review for FY17:

As discussed in the preceding chapter of this Order, the Commission has carried out the Annual Performance Review for FY17 based on the audited accounts furnished by MSEZ. Accordingly, the Commission after having reckoned the MSEZL Management decision to absorb the gap in revenue of Rs.3.70 Crores, decides to carry forward the net gap in revenue of Rs.0.40 Crores into the ARR of FY19.

2. Determination of revised ARR for FY19:

The analysis of the expenditure and revenue proposed by the MSEZL and decisions of the Commission on each item of the expenditure and revenue are discussed below:

i. Capital Investment Plan:

The MSEZL has proposed a capex of Rs.2.59 Crores for FY19, for catering to the power requirement of the upcoming industries (which are expected to be commissioned during FY19-20). The total power requirement in FY20 is estimated to touch 40MVA, as against to the present station capacity of 32MVA. The MSEZL has proposed to augment the station capacity of 110/33/11KV GSS-03 in FY19 and the related capital works projected is as under:

Table-2.2

Capital investment –Proposed by MSEZL for FY19

Rs. Crores

Particulars	Proposal for FY19
Supply of 33 kV XLPE insulated PVC UG cable for providing power supply to the upcoming units of MSEZ.	0.06
Installation of 33kV power Supply cables to the Battery limit of various Industrial Plots in MSEZL area	0.03
Augmentation of 110/33/11kV Substation –GSS-03 by providing additional 110/33kV, 40MVA transformer and other connected equipment	2.50
Total	**2.59**

Further, the MSEZL has stated that, in order to cater power supply to new upcoming industries, it has taken up the work of developing 33kV distribution network by providing 33kV UG cables and RMUs during FY18.

Table-2.3

Capital investment plan by MSEZL for FY18

Rs. Crores

Particulars	Proposal for FY18
Supply of 33 kV XLPE insulated PVC UG cable for providing power supply to units of MSEZL.	1.08
Installation of 33kV power Supply cables to the Battery limit of various Industrial Plots in MSEZL	0.63
Total	1.71

However, the MSEZL has stated that, though the capex expenditure is considered for FY18 and FY19, the depreciation charge and RoE for the related capex works is not factored in the ARR and would be factored in as per the actual cost during the APR filings for the respective years.

The Commission, recognizing the capex requirement as proposed by the MSEZL for FY19, and its decision not to factor in the costs during FY19, decides to allow the capex incurred by it in the APR of FY19.

ii. Sales for FY19:

a. MSEZL had estimated the revised sales for FY18 as 42.87 MU, which is 2.3 times the sales in FY17. Earlier, MSEZL had estimated 84.60 MU as the sales for FY18 and the downward revision is attributed by MSEZL to one major bulk consumer, whose actual off take is about 37 MU against earlier estimate of 70 MU per annum. Further, it is stated that the off-take of power from MSEZL was lower by the bulk consumer due to grid interruptions even after synchronization of CPP (29 interruptions till October,2017 reported). Therefore, to validate the sales for FY18, MSEZL was directed to furnish the consumer-wise details as per the specified format.

MSEZL in its replies has furnished the details except for the output produced by the manufacturing units.

The Commission notes that as on 31.10.2017, the total consumption was 22.84 MU. Thus, on prorata basis, the requirement for FY18 would be 30.45 MU. The estimate of 42.87 MU is 1.4 times the estimate based on prorata basis and is higher. Thus, the Commission has considered a sale for the base year FY18 at 36.66 MU as reasonable [being the average of 42.87 MU and 30.45 MU]

b. MSEZL has revised the estimates for FY19 to 52.27 MU, owing to reduction in sales in FY18 for the reasons stated earlier. In this regard, the Commission had noted that for FY19, MSEZL has estimated sales to HT industries category at 50.60MU and therefore, had directed MSEZ to furnish the details for the industries as per the specified format.

MSEZL in their replies has furnished the details of energy consumption but has not furnished the details of output produced by the manufacturing units. In the absence of the above data, the Commission, with the available data, has proceeded as follows to estimate the sales for FY19:

The Commission notes that MSEZL has considered a growth rate of 21.93% for FY19 over the estimated sales for FY18. Thus, considering the above growth rate and the base year sales of 36.66 MU as discussed earlier, the Commission approves 44.69 MU as the sales for FY19, as against, 52.27 MU estimated by MSEZ.

c. Regarding the number of installations, the Commission notes that in FY19 there would be 22 installations as against 19 in FY18, which indicates a growth of 15.79%.

iii. Demand Side Management:

The Commission, vide its letter dated 13.01.2017 had directed the MSEZL:

i. To submit the assessed technical potential for demand side management;

ii. To carry out load research and market surveys to establish base line data.
iii. To take up capacity building for employees in DSM;
iv. To create consumer awareness on DSM; and
v. To submit annual DSM plan during the tariff petition filing.

In view of the above directions, the MSEZL was directed to furnish the annual DSM plan for FY19 indicating the various DSM programs to be taken up during FY19. Further, if the cost of such DSM programs is being incurred by MSEZL, the same shall be included in the Capex program. MSEZL was also directed to furnish the compliance on items (i) to (iv) listed above.

MSEZs, in it replies, has stated that its area of operation is limited and therefore, scope for DSM is also limited. However, it is submitted that MSEZL has installed LED lamps for street lights in its entire area of operation and the consumers on their own are installing LED lamps. Also, it is stated that MSEZL is implementing ToD tariff as per the KERC orders.

The Commission has taken note of the replies furnished by the MSEZL and would take up the issue of DSM separately.

iv. Wheeling Charges and Cross Subsidy Surcharge:

As required under the MYT Regulations, MSEZL was directed to propose wheeling charges and Cross Subsidy Surcharge for its area of supply.

MSEZL in its replies has stated that the Commission until FY18 has not passed any orders in the matter and that at the relevant point of time, MSEZL would propose the same.

The Commission has noted the replies furnished by MSEZL. Regarding wheeling charges, as MSEZL has not furnished the breakup details of distribution network cost, for the year FY19, the wheeling charges determined for MESCOM shall apply.

As regards CSS, the Commission has determined a common cross subsidy surcharge for all the ESCOMs and therefore, the same shall be applicable to MSEZL also.

The cross subsidy surcharge determined in this Order shall be applicable to all open access/wheeling transactions in the area coming under MSEZL. However, the above CSS shall not be applicable to any captive generating plant for carrying electricity to the destination of its own use and for those renewable energy generators who have been exempted from CSS by the specific orders of the Commission.

The Commission directs the Licensees to account the transactions under open access separately. Further, the Commission directs the Licensees to carry forward the amount realized under Open Access/wheeling to the next ERC, as it is an additional income to the Licensees.

v. Distribution Losses:

MSEZL in its application has projected distribution losses of 1.40% for FY19. The MSEZL has reported a negative loss of 0.32% for FY17, which has not been accepted by the Commission. The Commission, in its MYT Order dated 30th March, 2016 had fixed the distribution loss of 2.00% for FY19. Hence, for the present, the Commission decides to consider and refix the distribution losses at 1.40% as proposed by the MSEZL for FY19.

vi. Power Purchase cost:

The MSEZL in its application has proposed the energy requirement of 53 MU for FY19 and the same is proposed to be procured from the MESCOM. The power purchase cost of Rs.30.74 Crores has been computed by MSEZL by assuming the power purchase rate of Rs.5.80 per unit as approved by the Commission for FY18 in the Tariff Order dated 11th April, 2017.

The Commission in its Order dated 30th March, 2016 had approved power purchase cost at the rate of Rs.5.25 per unit for FY19. Further, the Commission in its Tariff Order dated 11th April, 2017 has determined the power purchase cost of Rs.5.80 Crores for FY18. The Commission while determining the power purchase cost has considered 5% from Solar power and the remaining requirement is sourced on the basis of Merit Order for FY19. The Commission has taken note of the request of MSEZL to change the methodology adopted in determination of power purchase cost. The Commission further notes that, the power purchase cost determined as per the above methodology would result in a much higher per unit rate to the SEZs operating in the State. If the other operating costs are added to this higher power purchase rate, the total cost of delivered power within the SEZ area of supply would be much higher than the delivered cost of ESCOMs. This will defeat the very purpose of formation of SEZ with grant of deemed licensee status. In order to encourage export oriented manufacturing units in the SEZ areas, the consumer within SEZ area is to be provided with power at a rate reasonably lower than the rates applicable to the ESCOM's consumers. Thus, adoption of the earlier approach of taking power purchase rate at 5% at the margin would negate the benefits intended to accrue to the SEZ, and units in the SEZ area. Considering this the Commission decides to reconsider the methodology adopted in computation of power purchase cost of MSEZL for FY19. Accordingly, for computing the power purchase cost, the Commission proceeds to consider the total purchase cost of the State excluding Hydro power, as the basis to arrive at the average cost of power purchase at the generation and adding Rs.1.00 per unit towards grid support charges, trading margins and energy handling charges to determine the power purchase cost per unit at the interface point, as shown in the following table:

TABLE – 2.4

Cost of Power purchase for FY19

Rs. Crores

Cost of Power Purchase for FY19 (As per State approved PP cost excluding Hydro)			
Particulars	**Energy in MU**	**Cost**	**Average PP cost**
Approved State total power Purchase and cost	68266.16	29295.12	4.291
Less:			
KPC & Other Hydro Power	10764.11	914.01	0.849
State PP cost excluding Hydro	57502.05	28381.11	4.936
Add: Trading Margin , Energy handling and Grid support charges of ESCOMs			1.00
PP cost at Interface Point (Transmission Loss-3. 083 %)			**5.936**

The above per unit rate of power purchase payable to the MESCOM includes trading charges payable to it besides charges payable to KPTCL, PGCIL, SLDC and POSOCO. Hence, the Commission hereby approves the power purchase rate of Rs.5.936 per unit of energy delivered to MSEZL by MESCOM at the IF point, for FY19.

As per the quantum of sales and the distribution losses as approved by the Commission, and the power purchase rates computed above, the power purchase quantum and cost for FY19 works out as under:

TABLE –2.5

Approved Sales and Power Purchase cost for FY19

Year	Sales in MU	Distribution Losses in %	Energy at IF point in MU	PP rate at IF point Rs. per unit	Total Power Purchase cost in Rs. Crores
FY19	44.69	1.40%	45.32	5.936	26.90

Thus, the Commission approves power purchase cost of Rs.26.90 Crores which is payable to MESCOM for FY19.

vii. Other items of Expenditure:

In addition to the power purchase cost, the following are the other items of expenditure to be factored in the ARR for FY19:

a. O & M Expenses:

The MSEZL in its application has claimed O & M expenses of Rs.1.45 Crores by considering the weighted inflation index of 7.24% on the base year O&M expenses of base year FY16 and the efficiency factor of 0.5%. MSEZL has claimed this amount with breakup of employee cost, R&M expenses and A&G expenses as detailed below:

TABLE – 2.6

O & M Expenses – MSEZL Proposal

Rs. Crores

Particulars	FY19
Employee Expenses	0.53
Repairs & Maintenances Expenses	0.70
General Administration Expenses	0.22
Total	**1.45**

The Commission in its Tariff Order dated 30th March, 2016 had approved O&M expenses of Rs.1.70 Crores for FY19. The Commission, as per the audited accounts of MSEZL has considered the actual O&M expenses of Rs.0.79 Crores for FY16 as the base year O&M expenses in computation of O&M expenses for FY17 to FY19.

The Commission, in accordance with the provisions of the MYT Regulations and the methodology adopted while approving the O&M expenses for the control period for FY17 to FY19 and for the previous control period and subsequent APRs carried out for ESCOMs and deemed licensees (SEZ), proceeds with the determination of normative O&M expenses based on the 12 Year data of WPI and CPI. Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI) as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by the CERC with CPI and WPI in a ratio of 80:20, the allowable annual escalation rate of inflation for FY19 is computed as follows:

TABLE – 2.7

Computation of Rate of Inflation

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2005	103.37	115.8	113.314				
2006	109.59	122.9	120.238	1.06	0.06	1	0.06
2007	114.94	130.8	127.628	1.13	0.12	2	0.24
2008	124.92	141.7	138.344	1.22	0.20	3	0.60
2009	127.86	157.1	151.252	1.33	0.29	4	1.16
2010	140.08	175.9	168.736	1.49	0.40	5	1.99
2011	153.35	191.5	183.87	1.62	0.48	6	2.90
2012	164.93	209.3	200.426	1.77	0.57	7	3.99

2013	175.35	232.2	220.83	1.95	0.67	8	5.34
2014	182.00	246.90	233.92	2.06	0.72	9	6.52
2015	177.03	261.42	244.542	2.16	0.77	10	7.69
2016	180.6	274.3	255.56	2.26	0.81	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0811
e=Annual Escalation Rate (%)=g*100							**8.1059**

While determining the normative O & M expenses for FY19, the Commission has considered the following aspects:

a) The actual O & M expenses of the base year as per the audited accounts for FY16.

b) The three year compounded annual growth rate (CAGR) at 6.92% of the number of installations considering the actual number of installations as per the audited accounts upto FY17 and as projected by the Commission for FY18 and FY19.

c) The weighted inflation index (WII) at 8.1059% as computed above.

d) Efficiency factor at 0.5% as considered in the MYT order.

This base year cost as per the audited accounts is escalated by weighted inflation index of 8.1059%, consumer growth rate of 6.92% and efficiency factor of 0.50% to arrive at the allowable O & M expenses for the control period FY19. The approved O&M expenses for FY19 is as follows:

TABLE – 2.8

Approved O & M Expenses-FY19

Rs. Crores

Particulars	**FY16**	**FY19**
No. of Installations	9	11
Consumer Growth rate-CAGR		6.92%
Weighted Inflation Index	7.24%	8.1059%
Base Year O&M Cost	1.13	
Approved O&M expenses		**1.45**

Thus, the Commission decides to approve O & M expenses of Rs.1.45 Crores for FY19.

b. Depreciation:

The MSEZL in its application has claimed depreciation of Rs.2.75 Crores based on the average projected gross fixed assets for FY19.

Commission's analysis and decision:

For the purpose of allowing the depreciation, the average of opening and closing balances of gross fixed assets has been considered as proposed by MSEZL and the allowable depreciation, at the rate as per the MYT Regulations, is worked out as follows:

TABLE -2.9

Approved Depreciation for FY19

Rs. Crores

Particulars	Opening balance of assets as on 1.4.2018	FY19	
		Closing Balance of Asset as on 31.03.2019	Depreciation
Buildings	2.84	2.84	0.09
Civil	0.87	0.87	0.03
Plant & M/c	21.29	21.29	1.02
Line, Cable Network including plant/Machinery	33.89	33.89	1.61
Furniture	0.02	0.02	0.00
Office Equipment	0.05	0.05	0.00
Land	6.17	6.17	
Depreciation	**65.15**	**65.15**	**2.75**

Thus, the Commission decides to approve depreciation of Rs.2.75 Crores for FY19.

c. Interest on Capital loans:

The MSEZL in its application has considered the opening balance of effective capital loan of Rs.24.87 Crores and repayment of Rs.0.43 Crores and has claimed interest on the effective Capital loans of Rs.2.08 Crores at the interest rate of 8.436% for FY19. In addition to this, the MSEZL has also claimed Rs.1.08 Crores as allowable interest for the equity in excess of 30% of GFA used to carry out the capital works for FY19.

Commission's analysis and decision:

The Commission has considered the amount of loans, repayments and new loan, as furnished by the MSEZL in Format D-9 of its application. The Commission further notes that, the MSEZL has not proposed new borrowings on the projected capital works for FY19. The Commission has worked out the allowable interest on the average loans for FY19, duly considering the balance of capital loans, as per the audited accounts for FY17 and the repayments and the interest rate of 8.44% as proposed by MSEZL, as shown in the following Table:

TABLE – 2.10

Approved Interest on Loan for FY19

Rs. Crores

Particulars	FY19
Opening Balance of Capital Loan	24.87
Add new Loans	0.00
Less; Repayments	0.43
Total loan at the end of the year	24.44
Average Loan	24.66
Interest Rate allowed in %	8.44%
Interest on Capital Loans	**2.08**

Thus, the allowable interest on the effective capital loan is Rs.2.08 Crores.

The Commission having decided to recognize the opening balance of GFA of the licensed business at Rs.65.15 Crores and equity at Rs.32.86 Crores considers the equity in excess of 30% of GFA as being used to finance the acquisition of assets of MSEZL and allows the interest as per the provisions of Clause 3.6 of the KERC (Terms and Condition for Determination of Tariff for Distribution and Retail sale of Electricity) Regulations, 2006 as under:

Table-2.11

Approved Interest on Equity in excess of 30% of GFA for FY19

Opening balance of 30% of GFA (Eligible for allowance of RoE)	19.545
70% of GFA	45.605
Opening balance of net Equity considered	32.86
Opening balance of Capital loan	24.87
Equity in excess of 30% of GFA treated as amount of equity used to finance the creation of assets.	13.315
Weighted average rate of interest	8.436%
Interest eligible for allowance of FY19	1.12

Thus, the Commission decides to allow Rs.3.20 Crores (Rs.2.08 Crores plus Rs.1.12 Crores) as interest on capital loans for FY19.

d. Interest on Working Capital Loan:

The MSEZL in its application, has claimed interest on Working Capital Loan of Rs.0.83 Crores for FY19. MSEZL has made this claim based on the working capital equivalent to sum of one month's O & M expenses, 1% of opening GFA and two month's revenue with an interest rate of 12%. The rate of interest is based on the base rate declared by RBI at 9.3% / 9.65% plus 250 basis points.

Commission's analysis and decisions:

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

The present interest rates by commercial banks and financial institutions are charged mainly based on Marginal Cost of Fund Based Lending Rates (MCLR). These rates are comparatively lower than the base rates considered earlier. Further, in view of the changing economic situation, it is observed that there is a considerable reduction in the MCLR and also downward trend is evident in the interest rates. Hence, in such a situation, the Commission is of the view that, the MSEZL can avail working capital loans at competitive interest rates which would be less than the proposed rates of 12%. The Commission notes that, the present SBI MCLR rate for short term loans with tenure of one years is 8.15%. Considering the present MCLR, the Commission decides to allow an interest rate of 11.00% for FY19 for Working Capital loans. This rate of interest now allowed by the Commission in approval of ARR is subject to review during the APR.

Accordingly, the approved interest on working capital loans is as follows:

TABLE – 2.12
Approved Interest on Working Capital - FY19

Rs. Crores

Particulars	FY 19
One-twelfth of the amount of O&M Exp.	0.12
Opening GFA as per Audited Accounts	65.15
Stores, materials and supplies 1% of Opening balance of GFA	0.65
One-sixth of the Revenue	5.56
Total Working Capital	**6.33**
Rate of Interest (% p.a.)	11.00%
Interest on Working Capital	**0.70**

Thus, the Commission decides to approve interest on Working Capital loans of Rs.0.70 Crores for FY19.

e. Interest on Consumers Security Deposits:

The MSEZL in its application has claimed the interest on consumers' security deposit of Rs.0.22 Crores for FY19.

Commission's analysis and decisions:

In accordance with the KERC (Interest on Security Deposit) Regulations 2005, the interest rate on consumers' 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 the Reserve Bank of India Notification dated 2nd August, 2017, the prevailing applicable bank rate is 6.25%. The Commission has considered the same, for computation of interest on consumers' security deposits for FY19.

The Commission considers the consumers' security deposits as per the audited accounts of FY17 for projecting deposits for FY19. The Commission has computed the amount of consumers' security deposits as per the provision of MYT regulations for FY19 also and the interest on consumer's security deposits is worked out as follows:

TABLE – 2.13

Approved Interest on Consumers' Security Deposits for FY19

Rs. Crores

Particulars	FY19
Average balance of Consumers' Security Deposits	3.46
Rate of Interest	6.25%
Approved Interest on Consumers' Security Deposits	**0.22**

Thus, the Commission decides to approve interest on consumers' security deposit of Rs.0.22 Crores for FY19.

The abstract of approved interest and finance charges for FY19 is as follows:

TABLE – 2.14

Approved Interest and finance charges for FY19

Rs. Crores

Particulars	FY19
Interest on Loan Capital	3.20
Interest on Working Capital	0.70
Interest on Consumers' Security Deposit	0.22
Total Interest & Finance Charges	**4.12**

f. Return on Equity (RoE):

The MSEZL in its application has claimed Return on Equity of Rs.3.02 Crores based on normative equity of Rs.19.51 Crores by considering 30% of the GFA of Rs.65.02 Crores for FY19.

Commission's analysis and decision:

The Commission notes that, as per the bifurcated audited accounts of MSEZL for FY17, the closing balance of share capital is Rs.35.55 Crores and the accumulated deficit is Rs.5.71 Crores. The Commission having recognized the opening balances of net equity of the licensed activity of Rs.29.84 Crores for FY18 and Rs.33.47 Crores for FY19, as per the provisions of MYT Regulations, the Commission has recognized Rs.19.545 Crores as the normative equity at 30% of GFA of Rs.65.15 Crores for FY19 and decides to allow RoE at 15.5% for FY19.

The Commission, in accordance with the provisions of the MYT Regulations, has considered 15.5% of Return on Equity without grossing up with the Minimum Alternate Tax (MAT). Accordingly, the approved Return on Equity for FY19 is as follows:

TABLE -2.15

Approved Return on Equity for FY19

Rs. Crores

Particulars	FY19
Opening balance of Equity	35.55
Opening balance of accumulated deficit under Reserves and Surplus	(-)2.686
Opening Balance of Net equity	32.864
Allowable equity to allow RoE at 30% of GFA	19.545
Allowable RoE at 15.5%	**3.02**

Thus, the Commission decides to approve RoE of Rs.3.02 Crores for FY19.

The Commission notes that, the MSEZL in its Tariff application has made it clear that, under Section 80-21 AB of the Income Tax Act, it is availing tax holiday and has not claimed the tax on the RoE for FY19. Hence, the Commission has not considered the allowance of MAT on the RoE for FY19.

g. Other Income:

MSEZL in its application has claimed the other income of Rs.0.24 Crores for FY19. The Commission notes that, MSEZL as per the audited accounts has reported other income of Rs.0.30 Crores for FY17 which is mainly on account of interest received from the Banks deposit. The Commission has considered 15% increase over the actual other Income of FY17, for the projection of other income for FY18 and FY19.

Thus, the Commission decides to consider other Income of Rs.0.40 Crores for FY19.

3. Abstract of Revised Approved ARR for FY19:

Based on the above analysis and decisions of the Commission, the approved revised ARR for FY19 is as follows:

TABLE -2.16

Revised Approved ARR for FY19

Rs. Crores

Particulars	FY19
Power Purchase Cost	26.90
O&M Expenses	1.45
Depreciation	2.75
Interest on Capital Loan	3.20
Interest on Working Capital	0.70
Interest on Consumers' Security Deposit	0.22
RoE	3.02
Less Other Income	0.40
Carry forward deficit of FY18 as per Commission's Order I RP-08/2017 dtd.26.10.2017	3.91
Gap in revenue for FY17 (APR)	0.40
Net ARR	**42.14**

4. Average Cost of Supply:

TABLE –2.17

Average Cost of Supply

Particulars	FY19
Approved ARR in Rs. Crores	42.14
Sales in MU	44.69
Average cost of supply in Rs. per Unit	**9.43**

5. Gap in Revenue for FY19:

As discussed above, the Commission by considering the carry forward deficit of Rs.0.40 Crores as per APR for FY17 and Rs.3.91 Crores for FY18 as per the Commission's Order in RP.08/2017 dated. 26.10.2.017, decides to approve the revised Annual Revenue Requirement (ARR) of MSEZL at Rs.42.14 Crores for FY19, as against MSEZL's application proposing the revised ARR of Rs.41.94 Crores for FY19 alone. This approved revised ARR includes an amount of Rs.0.40 Crores, which is determined as the deficit as per the APR for FY17 as discussed in Chapter-1. Based on the existing retail supply tariff, the total revenue realization will be Rs.33.35 Crores, which results in a revenue gap of Rs.8.79 Crores for FY19 as shown in the following table:

TABLE –2.18
Revenue gap for FY18

Particulars	FY19
Net ARR including carry forward gap of FY17 and carry forward net deficit of FY16 and FY18 as per the Commission's Order in RP. 08/2017 dated.28.10.2017(in Rs. Crores)	42.14
Approved sales (in MU)	44.69
Average cost of supply (in Rs./unit)	9.43
Revenue at existing tariff (in Rs. Crores)	33.35
Deficit Revenue (in Rs. Crores)	**8.79**

Based on the above approved ARR, the determination of revised retail supply tariff is detailed in the following paragraphs.

6. Revenue Gap for FY17, FY18 & FY19:

The Commission in its preceding Chapters has decided to carry forward the gap in revenue of Rs.0.40 Crores for FY17 and also the carry forward deficit of

FY16 and FY18 of Rs.3.91 Crores as per the Commission's Order in RP.08/2017 dated. 26.10.2017 to the ARR of FY19. The gap in revenue for FY19 is proposed to be filled up by revision of retail supply tariff as discussed in the following paragraphs of this Chapter.

Considering the approved ARR for FY19 and the revenue as per the existing tariff, the gap in revenue for FY19 is as follows:

Table-2.19

Revenue Deficit for FY19

Rs. Crores

Particulars	Amount
Approved ARR for FY19 including carry forward gap in revenue for FY17	38.23
Revenue at existing tariff	33.35
Deficit to be recovered through additional tariff during FY19	4.88
Carry forward deficit of FY 16 as per the Commission's Order in RP 08/2017 dated.28.10.2017.	0.60
Carry forward deficit of FY 18 as per the Commission's Order in RP 08/2017 dated.28.10. 2017.	3.31
Total deficit	**8.79**

7. Recovery of the deficits:

MSEZ Proposal:

The MSEZL has proposed to recover the above deficit as follows:

a. Deficit after APR of FY16:

An amount of Rs.0.60 Crores payable to MESCOM towards power purchase cost, as per the Commission's Order dated.28.10.2017 in RP 08/2017., is proposed to be recovered directly from the MSEZ consumers in proportion to their consumption during FY16, as one-time payment.

Commission's decision:

The Commission decides to accept the proposal MSEZL's and allows one-time recovery the deficit of FY16 from its consumers.

b. Deficit for FY18:

As per the Commission's Order dated 28.10.2017 in RP. 08/2017 an amount of Rs.3.31 Crores being net deficit for FY18 is recoverable. The MSEZL has proposed recovery of such amount that would be required to maintain parity with similarly placed consumers in MESCOM. This requires a recovery at the rate of 45 paise per unit in FY19 which would enable it to recover Rs.2.35 Crores and the recovery of balance of Rs.0.96 Crores (Rs.3.31 Crores-Rs.2.35 Crores) would be proposed after the actual performance of FY19.

Commission's decision:

The Commission, in its order approving ARR for FY18 had reduced the tariff of MSEZL consumers by 13 paise. However, during the review of such Order in RP No. 08/2017, the Commission has revised the ARR and the deficit of Rs. 3.91 Crores was to be allowed by carrying it forward to FY19. The Commission is not in favour of the MSEZLs proposal carry forward the un-recovered gap of Rs. 0.96 crores (Rs.3.31-Rs.2.35 Crores) for recovery after FY19. Hence the deficit of Rs.3.31 Crores for FY18, ought to have been paid by the consumers during FY18, shall be recovered from them in proportion to the energy consumed during FY18.

c. Deficit for FY19:

The MSEZL has submitted that out of the likely deficit of Rs. 3.77 Crores for FY19, it is proposing to recover 15 paise per unit during FY19. However, the said deficit is worked out on the basis of power purchase cost of Rs. 5.80 per unit and if there is increase in the power purchase cost, the same shall be recovered fully through tariff for FY19. It is also submitted that with the proposed recovery of 15 paise per unit, it would recover Rs.0.78 Crores during FY19 against the proposed deficit of Rs.3.77 Crores. Hence, MSEZL would come before the Commission with a proposal to recover the balance of Rs.2.99 Crores after the actual performance of FY19.

Commission's decision:

As per the approved ARR for FY19, the net deficit to be recovered through tariff, for FY19, is Rs. 4.88 Crores (Table-2.19 of this Order). In line with the increase in retail supply tariff approved in respect of other consumers in the State, the Commission has revised the tariff of consumers of MSEZL and the total additional revenue thereon works out to Rs. 1.93 Crores, thus leaving an unrecovered gap of Rs. 2.95 Crores. The Commission is not in favour of carrying forward this unrecovered gap of Rs. 2.95 Crores to subsequent years, since it would amount to carrying forward the deficit as a Regulatory Asset, which is not permissible under the Tariff Policy of the GoI. The Commission is of the view that the same should be absorbed by the MSEZL, in view of the fact that the initial investment made by it on the assets are not in proportion to sales it has achieved for the last couple of years. The initial investments made on the assets was to meet a demand of over 80 MU annually but the actual sales upto FY17 are less than 25% of the anticipated sales. In case, the entire cost of RoE and interest on borrowing is passed on to the existing consumers, the retail supply tariff would be much higher than the tariff of similarly placed consumers in ESCOMs. In view of this, the existing consumers cannot be made to bear the burden of entire cost of financing disproportionate assets created by MSEZL, which ought to have been borne by a larger number of consumers as per the sales anticipated by the MSEZ. **Hence, the unrecovered deficit of Rs. 2.95 Crores shall be absorbed by the MSEZL.**

8. Volume Incentive Scheme proposed by MSEZ:

With a view to encourage its high tension consumers' production line with a reduced input cost, the MSEZL has proposed a 'Volume Incentive Scheme' wherein if a HT consumer consumes more than 50 MU during a financial year, it would extend an incentive of 75 Paise per unit for the units consumed between 10 AM and 6 PM, for the consumption over and above 50 MU in a financial year. The scheme is stated to be outside the ARR proposed for FY19. The MSEZL has sought approval of the Commission statedly in order to create a win situation for both and that on approval the scheme will be applicable for FY19.

Commission's analysis and decision:

After examining the MSEZL's proposal, the Commission observes that the total sales proposed for all its consumers put together is 53 MU for FY19. Further, MSEZ has not indicated the ways to meet the deficit towards the incentive, since it is outside the ARR of FY19. Obviously this has to be met through the ARR for the subsequent year, which means, all the other consumers have to bear the burden of the resultant deficit towards the incentive.

The Commission, therefore, considers that it is not advisable to introduce such a scheme from FY19. In case the total sales during the coming years exceed 100 MU with a larger consumer base, the Commission would examine introducing the incentive scheme. **Hence, the Commission does not approve the proposed scheme.**

9. Retail Supply Tariff of MSEZL for FY19:

After considering the various aspects as discussed above, the approved Retail Supply Tariff is as follows:

Table-2.20

Approved Retail Supply tariff for FY19:

Category	Particulars	Rate (in Rupees.)
HT Industrial		
	Demand Charges/KVA/month	200.00
	Energy Charges/kWh	6.85
HT Construction		
	Demand Charges/KVA/month	240.00
	Energy Charges/kWh	10.00
LT Industrial		
	Fixed Charges/KVA/month	190
	Energy Charges/kWh	6.35
LT Construction		
	Fixed Charges/HP/month	240.00
	Energy Charges/kWh	10.00

Note: For FY19, the billing demand has been revised to 85% of the Contract Demand, (CD) instead of existing 75% of the CD. Accordingly, Demand charges have to be claimed from April, 2018 onwards.

Time of Day (TOD) Tariff:

The following is the approved TOD tariff applicable to HT consumers:

Time of Day	Increase (+) / reduction (-) in energy charges over the normal tariff applicable
06.00 Hrs to 10.00 Hrs	(+) 100 paise per unit
10.00 Hrs to 18.00 Hrs	0
18.00 Hrs to 22.00 Hrs	(+) 100 paise per unit
22.00 Hrs to 06.00 Hrs next day	(-) 100 paise per unit

General Terms and Conditions of Tariff:

The relevant general terms and conditions of tariff for HT and LT consumers as approved in the Tariff Orders of ESCOMs issued from time to time are also applicable to consumers of MSEZL.

7. Commission's Order

1. **In exercise of the powers conferred on the Commission under Sections 62, 64 and other provisions of the Electricity Act, 2003, the Commission hereby determines and notifies the retail supply tariff of MSEZL for FY19 as determined 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 April of 2018 after due notification to the consumers of the MSEZL.**

3. **This Order is signed dated and issued by the Karnataka Electricity Regulatory Commission, at Bengaluru this day, the 14th May, 2018.**

-Sd-	-Sd-	-Sd-
(M.K. Shankaralinge Gowda) **Chairman**	**(H.D. Arunkumar)** **Member**	**(D.B. Manival Raju)** **Member**