

CHAPTER – 1

ANNUAL PERFORMANCE REVIEW FOR FY19

1.1 MSEZL's Application for APR for FY19:

MSEZL has filed its application for Annual Performance Review (APR) for FY19 and determination of revised ARR and retail supply tariff for FY21 on 28th November, 2019. MSEZL has sought the approval for its APR for FY19 based on the Audited Accounts and revision of ARR and Retail Supply Tariff for FY21.

The Commission in its Tariff Order dated 14th May, 2018 had approved the ARR along with Retail Supply Tariff for FY19.

The Commission in its letter dated 23rd December, 2019 had communicated its preliminary observations on the application. MSEZL, in its letter dated 27th December, 2019 has furnished its replies to the preliminary observations of the Commission.

The Commission has taken up the Annual Performance Review (APR) of MSEZL for FY19, as per the provisions of the MYT Regulations, based on its audited accounts and the same is discussed in this Chapter.

MSEZL's Submission:

MSEZL has submitted its proposals for revision of ARR for FY19 based on the Audited Accounts as follows:

TABLE – 1.1
ARR for FY19 – MSEZL's Submission

Amount in Rs. Crores

SL. No.	PARTICULARS	As Filed
1	Energy at Interface in MU	41.94
2	Distribution loss (%)	1.05%
3	Sales in MU	41.50
4	Revenue from sale of power	33.65
	Total Expenditure:	
5	Power Purchase Cost	25.57
6	Repairs & maintenance	0.77
7	Employees costs	0.42
8	A&G expenses	0.27
9	Depreciation	2.81
10	Interest on Loans	2.00
11	Interest on excess equity investment in GFA	1.06
12	Interest on Working capital	0.68
13	Interest on consumer deposits	0.24
14	Less: Expenses capitalized	0.00
15	Return on Equity	3.03
16	Less: Other income	-0.28
17	Net ARR	36.57
	(-)Deficit (4-17)	-2.92

Considering the revenue from sale of power of Rs.33.65 Crores against a net ARR of Rs.36.57 Crores, MSEZL has reported a revenue deficit of Rs.2.92 Crores for FY19. Further, MSEZL has submitted that in accordance with the Tariff Order dated 14th May, 2018 for FY19, they have absorbed the net revenue deficit of Rs.2.92 Crores for FY19. MSEZL has requested the Commission not to carry forward the above deficit during FY19. However, MSEZL has requested to allow it to recover the increase in the power purchase cost of FY19, consequent to revision of power purchase cost on actual basis for FY19 in the ARR for FY21, from the consumers as 'one-time recovery', in proportion to the energy consumed by the respective consumers in FY19.

1.2 The item-wise review of revenue and expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

1.2.1 Sales for FY19:

MSEZL in its Tariff Petition, has submitted the category-wise actual sales which is indicated in the table below:

Consumer Category	No. of consumers	Sanctioned Load MVA	FY19 Energy Sales (MUs)
HT Industrial	11	22.55	40.62
LT Industrial	8	0.15	0.35
HT Construction	1	1.00	0.27
LT Construction	5	0.07	0.25
Total	25	23.77	41.50

MSEZL has submitted that the total sales for FY19, is 41.50 MU as against sales of 44.69 MU approved by the Commission, in its Tariff Order dated 14th May, 2018.

The Commission, in its preliminary observation, had observed that the actual sales as per current filing [D-2 Format] is 41.50 MU which is less than the sales of 44.69 MU for FY19 as approved by the Commission, in its Tariff Order dated 14th May, 2018 by 3.19 MU.

The Commission also noted that the reduction in sales is attributed to reduced off-take by HT consumer. In this regard, the Commission directed MSEZL to furnish HT consumer-wise details of estimated and actual sales for FY19.

MSEZ in its replies, to preliminary observations, has furnished the details of HT bulk consumer-wise sales, as sought by the Commission, as shown in the following table:

TABLE -1.2

Estimated sales Projection Vs Actual Sales for FY19

Sl. No.	Consumers	Consumer Category	Approved for FY19 (MU)	Actual Energy Sales in FY19 (MU)
1	MSEZL Utilities	LT-Industrial	0.20	0.35
	MSEZL Utilities	HT-Industrial	0.85	0.67
	MSEZL Utilities	LT-Construction	0.05	0.00
2	Indian Strategic Reserve Petroleum Limited (ISPRL)	HT-Industrial	3.93	5.44
	OMPL	HT-Industrial	25.65	23.71
3	Cardolite Speciality Chemical India Limited	HT-Industrial	5.77	7.54
	Jay Mata	LT-Industrial	-	0.005
6	Syngene International Ltd.	HT-Construction	0.89	0.27
		LT-Construction	-	0.005
7	Authentic Ocean Treasure (AOT)	HT-Industrial	2.14	3.23
8	Shree Ulka	HT-Industrial	1.64	0.04
		LT-Construction	0.11	0.12
9	Yashaswi Fish Meal & Oil	HT-Industrial	1.64	-
		LT-Construction	0.06	0.06
10	Gadre	HT-Industrial	1.64	-
		LT-Construction	0.11	0.05
	S R Caterers	LT-Industrial	-	0.01
	Total		44.68	41.50

The Commission notes that ONGC Mangalore Petrochemical Limited (OMPL) has drawn less power to an extent of 1.940 MU [25.65-23.71] and Shree Ulka to an extent of 1.60 MU, which is the main reason for reduced sales as compared to the approved sales. Therefore, the Commission having noted the reduction in sales with respect to the approved figures, **hereby approves the actual sales of 41.50 MU for FY19.**

1.2.2 Distribution Losses for FY19:

MSEZL, in its Tariff Petition, has submitted that, the actual distribution loss is 1.05% as against an approved distribution loss of 1.40% for FY19.

MSEZL requested the Commission to allow the actual distribution loss at 1.05% for FY19.

The Commission, in its Tariff Order dated 14th May, 2018 had fixed the distribution loss at 1.40% as proposed by the MSEZL for FY19. The Commission notes that, MSEZL has achieved a reduction in distribution losses as compared to the distribution loss target for FY19 by 0.35%. Thus, the Commission decides to approve the distribution loss percentage of 1.05% achieved by MSEZL for FY19. As the Commission has not fixed any upper or lower limits while fixing the distribution loss targets in the previous years, it is decided not to levy penalty or allow any incentive on the actual achievement of loss targets for FY19.

1.2.3 Power Purchase for FY19:

MSEZL, in its application has reported that it has purchased 41.94 MU at the IF points of MESCOM at a cost of Rs.25.57 Crores as against the approved power purchase of 45.32 MU at a cost of Rs.26.90 Crores for FY19. MSEZL has submitted that they have sourced the entire power from MESCOM only and that they have paid to MESCOM at Rs.6.10 per unit. The power purchase cost of Rs.25.57 Crores includes Rs.0.61 Crores paid to MESCOM for FY17 as per Commission's Order dated 14.05.2018 and also the FAC, as approved from time to time. The MSEZL has requested the Commission to pass orders for recovery of any increase in the power purchase cost, while approving the ARR as per APR for FY19, from all the consumers of MSEZ in proportion to their consumption as has been done in previous years.

The Commission notes from the audited accounts of MSEZL that the actual quantum of power purchased from the MESCOM at IF points is 41.94 MU and at the approved power purchase rate of Rs.5.936 per unit in the Tariff Order dated 14.05.2018, the total power purchase cost works out to Rs.24.97 Crores after inclusion of the FAC charges of Rs.0.074 Crores paid to MESCOM during FY19. The Commission also notes that, MSEZL has included Rs.0.61 Crores being the differential amount of power purchase cost, approved as per APR for FY17 by the Commission in its Order dated 14.05.2018. Since the amount of Rs.0.61

Crores has been recovered from the consumers directly, the question of including it in the power purchase cost for FY19 will not arise. Hence, the Commission decides not to consider the difference in the power purchase cost of Rs.0.61 Crores, approved as per APR of FY17 in the revised ARR of FY19 during the APR of FY19.

The Commission, in its tariff order dated 14.05.2018, for computing the power purchase cost of FY19, has considered 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 Re.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. Adopting the same approach, the power purchase cost for FY19 is as shown in the following table:

TABLE – 1.3
Power Purchase Cost-FY19

Particulars	Energy in MU	Total Cost-Rs. Crores	Per unit Cost in Rs.
Approved State total power Purchase cost	70495.68	34576.13	4.905
Less: KPC & Other Hydro Power	11919.65	975.87	0.819
State PP cost excluding Hydro	58576.03	33600.32	5.736
Add: Trading Margin, Energy handling and Grid support charges of ESCOMs	-	-	1.00
PP cost at Interface Point	-	-	6.736

Based on the above computation, the power purchase cost for the purchase of 41.94 MU by MSEZL from MESCOM Interface points, at Rs.6.736 per unit works out to Rs.28.252 Crores for FY19. Therefore, the MSEZ is required to pay the difference in the power purchase cost to MESCOM for FY19. Thus, the Commission decides to approve the power purchase of 41.94 MU at IF points at a cost of Rs.28.252 Crores as per APR for FY19.

1.2.4 RPO Compliance:

The Commission in its preliminary observation, had directed MSEZL to furnish the status of solar and non-solar RPO compliance for FY19 and also the estimates of RPO to be met in FY20 and FY21 and the plan of action to meet the same.

MSEZL in its replies has stated that as per the prevailing RPO Regulations any deemed licensee procuring bulk power supply, partly or wholly, from ESCOMs is deemed to have complied with RPO if such ESCOM have complied with the RPO and therefore, a standalone compliance is not required.

The Commission notes that, the Regulations also specify that in case of non-compliance, the onus of meeting the RPO lies with the deemed licensees, as well.

The Commission further, notes that MESCOM from whom MSEZ is procuring power, has met both the Solar & Non-Solar RPO and therefore, MSEZ is deemed to have met both Solar & Non-Solar RPO for FY19.

1.2.5 Operation and Maintenance Expenses:

MSEZ in its application, has claimed Rs.0.42 Crores, Rs.0.77 Crores and Rs.0.27 Crores towards employee cost, R&M expenses and A&G expenses for FY19.

MSEZL submitted that the O&M expenses comprises of the following expenses:

- i. R&M expenses includes GSS outsourced manpower cost, consumables, testing charges, servicing of electrical instruments, KPTCL & CEIG statutory charges, inspection charges, etc.
- ii. A&G expense includes line insurance premium on fixed assets of GSS, professional and technical fees, KERC annual license fee, printing and advertisement charges, etc.
- iii. Employee Cost includes the share of direct employee cost and shared Corporate Service Employee cost.

MSEZL in its application, has informed that, while determining the O&M costs has adopted the approach as specified by the Commission in its previous Tariff Orders. MSEZL has considered the audited O&M expenses of the base year as

per the audited accounts for FY16 Rs.1.13 Crore. Further, MSEZL has considered a weighted inflation index of 8.28% and an efficiency factor at 0.5% as considered in earlier control periods.

Thus, the O & M Expenses based on the above approach for APR FY19 claimed by MSEZL is indicated below:

TABLE – 1.4
O&M expenses for FY19 – MSEZL Submission

Particulars	FY 16	FY 17	FY 18	FY19
No. of installations	9	15	21	25
Consumer Growth rate-CAGR	-	-	25.99%	
Weighted inflation index		7.71%	8.1059%	8.2760%
Base year O&M cost – Rs. in Crores.	1.13	1.22	1.35	
O&M expenses – Rs. in Crore	-	-		1.4617

The Commission notes that, as per the bifurcated audited accounts of the license activity, the MSEZL has incurred O&M expenses of Rs.1.46 Crore for FY19 as against the approved value of Rs.1.45 Crore. MSEZL has requested the Commission to allow the actual O&M expense of Rs.1.46 Crore for FY19.

The Commission in its Tariff Order dated 14th May, 2018 had approved O&M expenses of Rs.1.45 Crores for FY19. In accordance with the provisions of MYT Regulations and the methodology adopted while approving the O&M expenses for the earlier control period, the Commission 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 – 1.5
Computation of Inflation Rate for FY19

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
------	-----	-----	------------------	----------	-------	------------	-------------------------

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2007	73.6	130.8	119.36				
2008	80.0	141.7	129.36	1.08	0.08	1	0.08
2009	81.9	157.1	142.06	1.19	0.17	2	0.35
2010	89.7	175.9	158.66	1.33	0.28	3	0.85
2011	98.2	191.5	172.84	1.45	0.37	4	1.48
2012	105.7	209.3	188.58	1.58	0.46	5	2.29
2013	111.1	232.2	207.98	1.74	0.56	6	3.33
2014	114.8	246.9	220.48	1.85	0.61	7	4.30
2015	110.3	261.4	231.20	1.94	0.66	8	5.29
2016	110.3	274.3	241.50	2.02	0.70	9	6.34
2017	114.1	281.2	247.78	2.08	0.73	10	7.30
2018	118.9	294.8	259.62	2.18	0.78	11	8.55
A= Sum of the product column							40.16
B= 6 Times of A							240.97
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							0.0826
e=Annual Escalation Rate (%) =g*100							8.2604

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

- The actual O & M expenses of the base year as per the audited accounts for FY16 and the approved O & M expenses for FY17 and FY18.
- The three-year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per the audited accounts up to FY19 at 40.57%.
- The weighted inflation index (WII) at 8.2604% as computed above.
- Efficiency factor at 0.5% as considered in the earlier control periods.

Thus, the normative O&M expenses for FY19 will be as follows:

TABLE - 1.6
Normative O&M Expenses for FY19

Particulars	FY16	FY17	FY18	FY19
No. of Installations	9	9	19	25
Consumer growth index based on 3-year CAGR of Consumers in %.	-	0.00%	28.28%	40.57%
Inflation index in %	7.24%	8.1059%	8.2760%	8.2604%
Base year O&M expenses (Projected as per the actual O&M expenses of FY16 of Rs.1.13 Crores)	1.13	-	-	-
Approved O & M Expenses	-	1.22	1.35	-

O&M Index= O&M (t-1) *(1+WII-X)	-	-	-	1.455
Actual O&M expenses for FY19	-	-	-	1.46
Allowable O & M Expenses for FY19	-	-	-	1.45

Thus, the O & M expenses computed as above works out to Rs1.45 Crores for FY19 which is the same as compared to the actual O&M expenses of Rs.1.46 Crores for FY19 incurred by the MSEZ.

The Commission is of the view of that, as per the MYT Regulations, the O&M expenses are controllable expenses and expects from every distribution licensee including the deemed distribution licensee to minimize the O&M expenses.

In view of above facts, the Commission decides to approve the actual O&M expenses of Rs.1.45 Crores in the APR for FY19.

1.2.6 Depreciation:

MSEZL has claimed an amount of Rs.2.81 Crores as depreciation for FY19. The computation of depreciation of Rs.2.81 Crores by MSEZL is indicated in the following table:

TABLE -1.7

Depreciation for FY19- MSEZL's submission

Amount in Rs.Crores

Particulars	Opening Balance of GFA as on 01.04.2018	Closing Balance of GFA as on 31.03.2019	Depreciation
Lease hold assets	6.17	6.17	0.00
Licensed Activity Building- Housing the Grid Substation	2.84	2.84	0.09
Towers, Poles, fixture, overhead conductors, UG cables and devices- Package 2	33.93	35.92	1.68
Plant and Machinery Substation Transformers, Circuit breakers, other fixed apparatus of rating 100 MVA and below	21.27	21.28	1.01
Civil- Roads	0.87	0.87	0.03
Computers and Other items	0.07	0.07	0.00
Total	65.15	67.15	2.81

The Commission has taken note of the opening and closing balance of GFA and the amount of depreciation charged on such assets as per the bifurcated

audited accounts of MSEZL's license activity and the data furnished as per format D-8 and D-15 for FY19.

The Commission, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, has computed the allowable depreciation for FY19 as follows:

TABLE – 1.8
Allowable Depreciation for FY19

Particulars	Amount in Rs. Crores		
	Opening Balance of GFA as on 01.04.2018	Closing Balance of GFA as on 31.03.2019	Depreciation
Building	2.84	2.84	0.09
Civil Works	0.87	0.87	0.03
Plant & Machinery	21.27	21.28	1.01
Lines, Cable network	33.93	35.92	1.68
Furniture	0.05	0.05	0.00
Office Equipment	0.02	0.02	0.00
Total	58.98	60.99	2.81

The allowable depreciation based on the rates of depreciation, as per the prevailing Regulations, works out to Rs.2.81 Crores.

Thus, the Commission decides to allow depreciation of Rs.2.81 Crores for FY19.

1.2.7 Interest on Capital loan:

MSEZL in its application, has claimed an amount of Rs.2.00 Crores towards interest on capital loans and Rs.1.06 Crores towards interest on equity in excess of normative 30% of Gross Fixed Assets, as per the provisions of MYT Regulations. The Commission, in its Tariff Order dated 14th May, 2018 had approved the interest on capital loans at Rs.3.20 Crores for FY19. Thus, the MSEZL has claimed the total interest of Rs.3.06 Crores for FY19 by considering the weighted average rate of interest of 8.21% for FY19 on the average of opening and closing loan balances of the loans.

MSEZL submitted that the loan balances in the licensed activity balance sheet is based on debt balances at 46% and interest as computed above on

average loan balance of 46% i.e.Rs.24.37 Crore works out to Rs.2.00 Crore.

The Commission has taken note of the balance amount of capital loan, repayments and new loan availed, if any, as per the details furnished by the MSEZL in Format D-9 of the application and as per the bifurcated audited accounts of MSEZL's license activity for FY19. The Commission notes that the actual weighted average rate of interest works out to 8.21%.

The Commission has worked out the allowable interest on the average capital loan for FY19, duly considering the opening and closing balance of loans and repayment thereon as per the audited accounts of MSEZL, as shown in the following table:

TABLE - 1.9
Allowable Interest on Capital Loan for FY19

Amount in Rs. Crores	
Particulars	FY19
Long term secured & unsecured loans	24.87
Add: new Loans	0.00
Less: Repayments	1.00
Total loan at the end of the year	23.87
Average Loan	24.37
Interest Rate allowed in %	8.21%
Interest Allowed	2.00

In addition to the above the Commission has allowed the normative interest for the excess equity over 30% of GFA at the interest rate of 8.23% for FY19, as per the provisions of MYT Regulations, as detailed below:

TABLE - 1.10
Allowable Normative Interest on excess equity for FY19

Amount in Rs. Crores		
Sl.No.	Particulars	FY19
1	Opening balance of GFA	65.16
2	30% of GFA(Eligible for allowance of RoE	19.55
3	70% of GFA(Eligible for allowance of Loan component	45.61
4	Opening balance of Equity	32.42

5	Equity in excess of 30% of GFA (4-2)	12.87
6	Weighted average rate of Interest	8.23%
7	Interest eligible for allowance for FY19	1.06

Thus, the Commission decides to approve the total interest on loan of Rs.3.06 Crores inclusive of allowable normative interest on excess equity for FY19.

1.2.8 Interest on Working Capital:

MSEZL in its application has claimed an amount of Rs.0.68 Crores towards normative interest on working capital for its licensed activity at the rate of 11% per annum (8.5% plus 250 basis points), in the APR for FY19. The Commission, in its Tariff Order dated 14th May, 2018 has allowed Rs.0.70 Crores as interest on working capital for FY19.

The Commission notes that, as per the bifurcated audited accounts of the license activity, MSEZL has not availed any working capital and incurred interest thereon during FY19.

The Commission notes that, the present SBI MCLR rate for short-term loans with tenure of one years is 8.55%. Considering the present MCLR, with addition of basis points, the Commission decides to allow an interest rate of 11% for FY19 for Working Capital loans.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereto, the Commission has computed the normative allowable interest on working capital for FY19 as follows:

TABLE – 1.11
Allowable Interest on Working Capital for FY19

Particulars	Amount in Rs. Crores	
	FY19	
One-twelfth of O&M Expenses.	0.12	
Opening balance of GFA as per Audited Accounts	65.16	
Stores, materials and supplies 1% of Opening balance of GFA	0.65	
One-sixth of the Revenue	5.61	
Total Working Capital	6.38	

Actual working capital interest as per audited accounts	0.00
Allowable Rate of Interest (% p.a.)	11.00%
Normative Interest on Working Capital allowable as per MYT norms	0.70
Allowable Interest on working capital	0.35

Thus, the Commission decides to approve the interest on working capital loan of Rs.0.35 Crores for FY19.

1.2.9 Interest on Consumers' Security Deposits:

MSEZL in its application has claimed an amount of Rs.0.24 Crores towards payment of interest on consumers' security deposits for FY19 at the interest rate of 6.25% p.a.

The Commission has considered the opening and closing balance of consumers' security deposits as per the bifurcated audited accounts of MSEZL for FY19. As per the KERC (Interest on Consumers' Security Deposit) Regulations, 2005 the interest on consumer deposits shall be allowed as per the bank rate prevailing as on the 1st of April of the relevant year. Considering, the bank rate 6.25% as on 1st April, 2018, the allowable interest on consumers' security deposits is as follows:

TABLE – 1.12
Allowable Interest on Consumers' Security Deposits for FY19

Particulars	Amount in Rs. Crores	
	FY19	
Opening Balance of Consumers' Security Deposits	3.81	
Addition of deposits		
Closing Balance of Consumers' Security Deposits	4.22	
Allowable Bank Rate of Interest in %	6.25%	
Approved Interest on Consumers' Security Deposits	0.24	

Thus, the Commission decides to approve interest on consumers' security deposits of Rs.0.24 Crores for FY19.

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

TABLE – 1.13
Allowable Interest and Finance Charges

Amount in Rs. Crores

Particulars	FY19
Interest on Loan capital	3.06
Interest on working capital	0.35
Interest on consumers security deposits;	0.24
Total interest and finance charges	3.65

1.2.10 Return on Equity:

MSEZL in its application has claimed Return on Equity of Rs.3.03 Crores for FY19 as detailed below:

TABLE – 1.14
Return on Equity for FY19– MSEZL's Submission

The	Particulars	Amount Rs. in Crs.
	The Gross equity share capital as on 01.04.2018 is	35.55
	Opening balance of accumulated deficit under Reserves & Surplus	(3.13)
	Opening balance of Net Equity	32.42
	Normative equity at 30% of the opening GFA	19.55
	RoE @ 15.5%	3.03

Commission has computed the return on equity at 15.50% by limiting the equity at 30% of the opening balance of GFA and has allowed RoE for FY19. As per the bifurcated audited balance sheet of MSEZL for FY19, the opening share capital for the licensed business is Rs.35.55 Crores and the accumulated deficit is Rs.3.13 Crores. The net opening equity for FY19 is Rs.32.42 Crores. However, the normative allowable equity based on the 30% of the opening balance of GFA of Rs.19.54 Crores is less than the actual net equity of Rs.32.42 Crores.

Accordingly, as per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereto, the Commission decides to consider the 30% of the opening GFA for Rs.19.54 Crores as the normative equity for computation of return on equity for FY19 as indicated in the following table:

TABLE – 1.15
Allowable Return on Equity

Amount in Rs. Crores

Particulars	FY19
Opening balance of Share Capital	35.550
Opening balance of accumulated deficit under Reserves and Surplus	-3.13
Opening balance of Net Equity	32.420
Normative Equity at 30% of the opening GFA	19.548
Return on equity at 15.50%	3.030

Thus, the Commission decides to allow Return on Equity of Rs.3.03 Crores for FY19.

1.2.11 Income Tax:

MSEZL in its filing, has submitted that the deferred tax liability arising out of difference in rates of depreciation under Income Tax Act, 1961 and CERC notified rates for licensed activity assets is recognized as deferred tax liability and provision is made for Rs.0.09 Crore for FY19. MSEZL stated that since the deferred tax liability is only a charge on P&L statement and does not represent actual outgo of tax during FY19, the same has not been considered for arriving at the Revenue deficit of FY19 and hence, the deferred tax is not proposed for recovery from the consumers. The Commission notes that, the MSEZL being a SEZ developer is enjoying tax holiday under the Section 80.1AB of the Income Tax Act, and has not claimed any tax for FY19.

Thus, the Commission decides not to allow any amount of income tax /MAT for FY19.

1.2.12 Other Income:

MSEZL, in its application has submitted that it has received Interest income of Rs.0.24 Crores on deposits kept with MESCOM and Rs.0.04 Crores as Supervision charges. Thus, MSEZL has claimed an amount of Rs.0.28 Crores, as other income for FY19.

The Commission decides to allow an amount of Rs.0.28 Crores as other income for FY19.

1.3 Abstract of Approved ARR for FY19:

As per the above item-wise decisions of the Commission, the consolidated approved ARR for FY19 is as follows:

TABLE – 1.16
Abstract of Approved ARR for FY19

Amount in Rs. Crores

Particulars	As Approved in T.O dated 14.05.2018	As per filing	As per APR
Power Purchase (MU)			
Energy @ IF Point in MU	45.32	41.94	41.94
Sales (MU)	44.69	41.50	41.50
Distribution Loss in %	1.40%	1.05%	1.05%
Revenue:			
Revenue from Sale of Power	42.14	33.65	33.65
Expenditure:			
Power Purchase Cost	26.90	25.57	28.25
Employee Expenses		0.42	
R&M Expenses		0.77	
A&G Expenses	1.45	0.27	1.45
Depreciation	2.75	2.81	2.81
Interest on Loan Capital	3.20	3.06	3.06
Interest on Working Capital	0.70	0.68	0.35
Interest on Consumer security Deposits	0.22	0.24	0.24
RoE	3.02	3.03	3.03
Income Taxes	0.00	0.00	0.00
Less: Other Income	-0.40	-0.28	-0.28
Carry forward deficit of FY18 as per Commission's Order I RP-08/2017 dtd.26.10.2017	3.91	0.00	0.00
Gap in revenue for FY17 (APR)	0.40	0.00	0.00
Total ARR	42.14	36.57	38.91
Gap in Revenue	0.00	-2.92	-5.26
Revenue Gap absorbed by MSEZL	0.00	2.92	2.68

1.4 Gap in Revenue for FY19:

As against the approved ARR of Rs.42.14 Crores, the Commission after the Annual Performance Review (APR) of MSEZL for FY19 decides to allow the total ARR of Rs.38.91 Crores for FY19. Considering the revenue from sale of power of Rs.33.65 Crores, the gap in revenue is determined at Rs.5.26 Crores for FY19.

MSEZL in its application has submitted that, its Management has decided to absorb an amount of Rs.2.92 Crores of the gap in revenue for FY19. MSEZL has requested the Commission that while truing up, any increase in the power

purchase cost (being an uncontrollable cost) should be completely recovered from the consumers. Further, the MSEZ has stated that such increase in the power purchase cost should not be carried forward to the ARR of FY21, instead it should be recovered from the consumers as 'one-time recovery', in proportion to the energy consumed by the respective consumers in FY19. MSEZL submitted that it would ensure equitable recovery from all the consumers and average cost of supply of FY21 will not be unduly increased.

The Commission takes note of the above decision of the Management and decides to consider deficit of Rs.2.58 Crores to be absorbed by MSEZ, out of the deficit of Rs.5.26 Crores and the remaining net deficit of Rs.2.68 Crores, being the difference in power purchase cost, as the net deficit for FY19. The Commission decides to carry forward the net deficit of Rs.2.68 Crores to the revised ARR of FY21.