MSEZL/F&A/KERC/2020-21 19th December, 2020

To,
Secretary,
Karnataka Electricity Regulatory Commission,
No. 16, C-1, Millers Tank Bed Area,
Vasanth Nagar, Bengaluru, 560 052,
Karnataka, India.

Dear Sir.
Sub: Preliminary observation on Application of APR for FY20 and ARR FY 22.
Ref.: Your letter No. B/08/20/942 dated 09.12.2020.

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In pursuance to the above referred letter, we have noted the preliminary observations made by Hon'ble Commission on our application for APR for FY20 and ARR and retail tariff for FY 22.

We would like to furnish below point-wise reply to your observations:

<u>Reply to Observation 1:</u>
In FY 20, the energy consumption by HT Industrial consumers increased by 5.98 MUs. The consumer wise energy sale is furnished in Annexure I to this letter.

<u>Reply to Observation 2 (a) and 2(b):</u>
The consumer wise energy sales in (i) FY 20 and (ii) the energy estimation for FY 21 & FY22 along with the details of connected load are attached as Annexure I to this letter.

<u>Reply to Observation 2(c):</u>
The energy estimation for FY 22 is made considering the existing consumers profile only. In the energy estimation for FY 22, MSEZL has not envisaged new consumer/industry profile.

In the context of energy estimation made for FY 22, MSEZL had convened a meeting of all the consumers in the Zone on 13.11.2020. The said meeting was attended by all the consumers, wherein the FY 22 energy estimation was presented and discussed with all the consumers. It was explained that the estimation was made on the basis of the energy consumption pattern of the previous years. All the consumers agreed to the estimations made by MSEZL.

Reply to Observation 2(d):
The consumer wise sales for FY 21 upto November 2020 is attached as Annexure II to this letter.

Reply to Observation 3.
MSEZL does not have any historical information to assess financial impact of open access on the distribution cost recovery. Also, currently we have not received any request for open access approval from any consumers. In this context, we kindly request the Hon'ble Commission to consider our prayer for approving the wheeling and CSS for MYT control period FY 22, as approved for the previous year.

However, considering the proposed FY 22 distribution cost and estimated energy sales of Rs.11.50 Crore and 57.57 MUs respectively the Wheeling and Cross Subsidy Surcharge (CSS) per unit would work to Rs.1.99/unit. The Hon'ble Commission determines a common additional surcharge for all the ESCOMs and therefore, we kindly request the Hon'ble Commission that the same to be made applicable to MSEZL also.

Reply to 4th Observation:
The Hon'ble Commission regulations on RPO obligations provides that deemed licensees procuring bulk power, partly or wholly, from ESCOMs shall be deemed to have complied with the RPO if such ESCOMs have complied with the RPO.

Also, the Hon'ble Commission from FY 18-19 onwards has approved the PP cost considering the State approved total power purchase and cost excluding the Hydro power as the basis to arrive at the average cost of power to be delivered at IF point. Thus, the quantum of energy determined and cost thereof is all inclusive including Non-conventional energy and its cost thereof. Hence, a standalone compliance of RPO may not be required.

In the context of open access power, MSEZL would also explore the possibility of including the RPO obligations in the Request for Proposal (RfP) while calling e-tenders for e-bidding in the upcoming e-tender.

Reply to 5th Observation:
The energy estimation for FY 22 is made considering only the existing consumers. The error in page 39 is regretted.

Reply to 6th Observation:

MSEZL has received **project specific asset government grants** from Visvesvaraya Trade Promotion Centre (VTPC), a Government of Karnataka organisation under ASIDE scheme. The project specific grant was received for (1) construction of Common Effluent Treatment Plant (CETP) for MSEZ units and (2) construction of two lane flyover (Flyover) near Jokatte junction at MSEZ. The letter from VTPC intimating the release of funds for the assets CETP and Flyover is attached as Annexure III and Annexure IV respectively.

In chapter 3 to the tariff fling, we have brought to the kind notice of the Hon'ble Commission that the financial statements i.e. balance sheet, profit & loss statement and cash flow statement is prepared and presented by segregating the licensed (supply of power) portion business activity from the non licensed portion business activity.

The projects CETP and Flyover **pertain to non-licensed business activity** and they are independent and separate from the business activity of supply of power which is licensed and regulated. The nature, purpose and functionality of CETP and Flyover assets are heterogeneous and independent from the energy/power infrastructure.

Further, the Assets & Liabilities; Revenue & Expenditure pertaining to assets CETP and Flyover are separate & independently identifiable in the financial statements. The line items in the financial statements pertaining to CETP and Flyover can neither form part of nor can be considered/equated as part of licensed portion in the financial statements. Hence, in the balance sheet submitted to the Hon'ble Commission the project specific government grant received for CETP and Flyover is shown under non licensed business activities.

MSEZL also craves to add before the Hon'ble Commission that disclosures pertaining to the purpose, nature and receipt of grant for CETP and Flyover are disclosed under Note 47 in the Annual financial statements.

Reply to 7th observation:

A. The Hon'ble Commission had in tariff order for FY 21 approved an ARR of Rs.44.74 Crore and approved the tariff after considering the following major points:

1. The PP for APR FY 18 was revised from Rs.24.95 Crore to Rs.28.36 Crore and the Hon'ble Commission had directed MSEZL to pay the difference in PP cost of Rs.3.41 Crore to MESCOM.
2. The Hon'ble Commission had allowed to carryforwad only Rs.2.42 Crore into the ARR of FY 21. Thus, Rs.0.99 Crore (Rs.3.41 Crore *minus* Rs.2.42 Crore) of PP cost was not allowed for recovery in the tariff resulting in a **<u>direct cash loss of Rs.0.99 Crore.</u>**
3. The Hon'ble Commission having considered Rs.2.42 Crore in the FY 21 ARR, had approved an ARR of Rs.44.74 Crore and observed as under:

   "The Commission, taking note of the above submissions of MSEZ, has worked out the additional realizable revenue, as under, based on the revised tariff, and the deferred revenue which is not realizable, in this tariff revision exercise.

Sl. No.	Particulars	Amount in Rs.
1	Approved ARR in Rs. Crore	44.74
2	Approved sales in MU	50.54
3	Average cost of supply in Rs./unit	8.852
4	Revenue at existing tariff in Rs. Crore	40.99
5	GAP in revenue Rs. in Crore	3.75
6	Additional revenue realised by revision of tariff	1.82
7	Deferred Revenue	1.93

   As agreed to by the MSEZ, the Commission, based on the above computations, recognizes an amount of Rs.1.93 Crore as unmet revenue for FY 20 and treat the same as deferred revenue, to be recovered or absorbed by the MSEZ, without any carrying costs, based on the APR for FY 20."

4. The Hon'ble Commission has allowed Rs.1.93 Crore as deferred revenue **<u>to be either recovered or absorbed by MSEZL</u>** and thereby has **set an unmet revenue of Rs.1.93 Crore.**

B. Basis the above submissions, the present proposal are made considering the (i) recovery of direct cash loss Rs.0.99 Crore and (ii) recovery of unmet & deferred revenue of Rs.1.93 Crore.

C. As explained below, MSEZL having incurred/paid a power purchase cost of Rs.3.41 Crore and recovered Rs.2.72 Crore from actual energy sales of 56.52 MUs has suffered a direct cash loss of Rs.0.70 Crore *(Rs.3.41 Crore – Rs.2.72 Crore)*. The non-recovery of direct PP cost of Rs.0.70 Crore has directly contributed to and resulted in <u>deferred revenue under recovery</u> of Rs.0.63 Crore i.e. the overall revenue deficit of Rs.0.63 Crore. The detailed workings are presented as under:

FY 20 APR

Particulars	Legend	Details
FY 18 APR PP cost - Revised PP cost and paid to MESCOM - Rs. In Cr	A	3.41
Allowed for recovery in ARR of FY 20 – Rs. In Cr	B	2.42
Sales approved for FY 20 – in MUs	C	50.54
Recovery of per unit set in tariff = (B/C*10)	D = B/C*10	0.48
Actual sales in FY 20 – in MUs	E	56.52
Amount recovered as revenue - Rs. In Cr	F =D*E/10	2.71
Impact on P&L - PP cost paid is more & revenue recovery from the same is less thereby contributing to deficit – Rs. In Crore	G = F-A	-0.70

Alternative Presentation

Particulars	Legend	Details
FY 18 PP cost not allowed for recovery – Rs. in Crore	H = A-B	0.99
Incremental sales contributing to achieve recovery the of PP cost - in MUs	I = E-C	5.98
Incremental recovery of PP cost from incremental sales – Rs. in Crore	J = H*I/10	0.29
Ultimate PP cost not <u>recovered</u> and contributing to deficit – Rs. in Crore	K = J-H	-0.70

D. Basis the above, in order to present the factual position of FY 20 APR MSEZL has considered the actual payment of FY 18 PP cost vis-a-vis the actual recovery of PP cost, and thereby Rs.2.72 Crore is deducted in the revenue (instead of Rs.2.42 Crore) and Rs.3.41 Crore in the Power purchase cost.

E. Notwithstanding the above, the deduction of Rs.2.71 Crore instead on Rs.2.42 Crore <u>has no impact either on the tariff or ARR for FY 22</u>.

   1. Having considered Rs.2.72 Crore, there is unabsorbed deferred revenue/ deficit of Rs.0.63 Crore and this deficit is proposed to be absorbed by MSEZL and thus not proposed for recovery in the ARR for FY 22.
   2. If Rs.2.42 Crore would have been considered there would have been still a unabsorbed deferred revenue/deficit of Rs.0.34 Crore and this amount would also have been absorbed/foregone and not proposed for recovery.

We trust our above replies clarify the observations made by the Hon'ble Commission in the above referred letter.

Thanking you,
Yours faithfully,
For MANGALORE SEZ LTD

Authourized Signatory