

CHAPTER – 2

ANNUAL REVENUE REQUIREMENT FOR FY21

Mangalore SEZ Limited's (MSEZL) Application:

2.1 Annual Revenue Requirement (ARR) for FY21:

MSEZL, in its application dated 28th November, 2019, has sought approval of the Commission for the revised ARR and determination of Retail Supply Tariff for FY21. The summary of the proposed revised ARR for FY21 is as follows:

TABLE – 2.1
ARR for FY21– MSEZL Proposal

Amount in Rs. Crores

Particulars	FY21
Energy @ IF Point (MU)	57.89
Sales (MU)	57.22
Distribution Loss in %	1.16%
Revenue from Sale of Power	48.47
Expenditure:	
Power Purchase Cost	37.70
Employee Expenses	0.48
R&M Expenses	0.82
A&G Expenses	0.28
Depreciation	2.84
Interest on Capital Loan	3.15
Interest on Working Capital	0.95
Interest on Consumer Deposit	0.40
RoE	3.12
Less: Other Income	-0.28
Carry Forward deficit as per ARR for FY19	0.00
Total ARR	49.46
Surplus (+) / Shortfall (-) before tariff revision	(0.99)

The MSEZL has proposed an ARR Rs.49.46 Crores for FY21. MSEZL while proposing the ARR for FY21, has not carried forward any revenue deficit of FY19 and has submitted that it is being absorbed by them as per the Commission's Order for

FY19. Considering the estimated revenue of Rs.48.47 Crores based on the existing retail supply tariff, the MSEZL has projected a revenue gap of Rs.0.99 Crores for FY21. MSEZL has projected the ARR for FY21 by considering the power purchase cost at Rs.6.513 per unit, as approved by the Commission, in its Tariff Order dated 30th May, 2019 and has requested the Commission that, in the event of any change in the power purchase cost, the same may be compensated through retail tariff increase for FY21.

Treatment of Revenue gap for FY19:

The MSEZL in its filing has proposed a revenue deficit of Rs. Rs.2.92 Crores as per APR for FY19 and agreed to absorb the same deficit. The MSEZL has requested the Commission that, for any change in the power purchase rate from Rs.5.936 per unit for FY 19 as approved by the Commission in its Tariff Order dated 14th May 2018, the difference in power purchase cost need to be passed on to the consumers through tariff increase for FY21.

The Commission, has computed the revenue gap for FY19 in accordance with the MYT Regulations, as discussed in the previous chapter and has decided to carry forward the net gap of FY19 of Rs.2.68 Crores to the ARR of FY21.

2.2 Determination of ARR for FY21:

The analysis of the expenses and decisions of the Commission on each of the items of expenditure proposed by MSEZL for FY21 are discussed below:

2.3 Sales:

MSEZL in its filing, has projected the energy sales at 57.22 MUs for FY21, considering the energy consumption of new consumers who have commenced operations in FY20 and those consumers who would commence operations in FY21. The category- wise demand and sales projections for FY 21 is as under:

TABLE – 2.2
Category wise demand and sales projections by MSEZL

Sl. No.	Type of consumer category	FY 21	
		MVA	MU
1	HT Industrial – 33 KV	30.30	51.89
2	HT Industrial – 11 KV	4.85	4.90
3	HT -Construction	0.00	0.00
4	LT Industrial	0.15	0.43
5	Total	35.30	57.22

Commission’s analysis and decision:

The Commission notes the power purchase quantum and its cost proposed by MSEZL for FY21. The Commission in its preliminary observation, had observed that, MSEZL has estimated the revised sales for FY20 as 52.88 MU, against 50.54 MU approved by the Commission, which is more by 2.34 MU. MSEZ was directed to analyse and furnish the reasons for such an increase in sales in FY20, with reference to the approved sales as per tariff Order, 2019.

MSEZL, in its reply to the preliminary observation, has submitted that for FY20, the sales are estimated at 52.88MU against 50.54MU as approved by the Commission considering the actual sales upto October, 2019 at 31.40 MUs and projections for the balance period from November 2019 to March 2020 at 21.48 MU, MSEZL stated that the projection for 21.48 MUs is based on the average consumption pattern of the consumers for the first seven months of FY20.

The Commission had further observed that MSEZL has stated that the sales for FY21 are re-estimated at 57.22MU, after evaluating the energy consumption of new consumers who have commenced operations in FY20 and those who would commence the operations in FY21. In this regard, the Commission directed MSEZL to furnish the details of sales calculation. MSEZL has submitted the details as desired by the Commission.

The Commission notes from the replies furnished by MSEZ that, as on November, 2019, the total sales is 36.2 MU and thus, on pro-rata basis, for the whole year FY20,

the sales would work out to 54.30 MU. However, the sales estimated by MSEZ is 52.88 MU. Since, there is no specific trend available as the MSEZ is expanding its operation year on year, the estimate of 52.88 MU for FY20 appears to be reasonable.

From the replies furnished it is noted that, in FY21 the sales estimated for existing consumers is 42.46 MU, which is less than the sales of 43.74 MU for FY20, mainly due to reduced sales to one of its consumers namely Cardolite from 8.00 MU to 7.05 MU. Even though, the reasons for this is not explained by MSEZL, it may be due to anticipation of Cardolite going to Open Access. For new consumers, MSEZL has estimated sale of 14.76 MU towards addition of 14.80 MVA new capacity. Thus, the estimated sales of 57.22 MU will result in growth rate of 8.21%. **In absence of any specific trend in sales, as stated earlier, the Commission approves the sales of 57.22 MU for FY21.**

2.4 Distribution Losses:

MSEZL in its application, has projected the distribution loss at 1.16% for FY21.

Commission's analysis and decision:

The Commission notes that the input energy received by the MSEZL is at 33KV and the distribution network of the MSEZL includes 33KV, 11KV and LT network. MSEZL has projected the lower distribution losses for FY21 as compared to distribution loss of 1.21% as approved by the Commission for FY21. For the present, the Commission decides to consider the same distribution losses of 1.16% as proposed by the MSEZL for FY21. However, MSEZL is required to furnish the computation of distribution losses based on the actual metered data of input energy and sales, at the time of APR of FY21 for assessment of correct distribution losses.

2.5 Capital Investment Plan:

During the MYT filing MSEZ had not proposed any capex for FY21 however it had proposed capex of Rs.1.25 Crores for FY22. The Commission notes that, MSEZL has

not proposed any capex for FY21 and has stated that they would re-asses the additional load growth and energy requirement of their consumers and may undertake augmentation of the sub-station and would bring it to the notice of the Commission.

In view of the above, the Commission has not considered any new capex for the purpose of ARR for FY21.

2.6 Power Purchase cost:

MSEZL's Submission:

MSEZL in its filing has proposed the energy requirement at IF points of 57.89 MU, for FY21. MSEZL has proposed the procurement of its required energy from the MESCOM. The MSEZL has proposed the power purchase cost of Rs.37.70 Crores, by considering the power purchase rate of Rs.6.513 per unit for FY21. MSEZL has submitted that FAC charged by MESCOM from time to time has not been factored while considering the power purchase rates, as FAC is a pass through cost. Further, MSEZL in its application has submitted that if there is any change in the power purchase per unit rate, the same needs to be passed on to the consumers in the retail supply tariff to be determined for FY21. The power purchase quantum and its cost proposed by MSEZL for the control period FY21 are as follows:

TABLE - 2.3

Power Procurement Plan as submitted by MSEZL

Sl. No.	Particulars	FY 21
1	Energy demand (MVA)	35.30
2	Energy Sales (MUs)	57.22
3	Distribution loss (%)	1.16%
4	Energy Requirement (MUs)	57.89
5.	Power purchase cost-Rs. Crores	37.70

Commission's analysis and decision:

The Commission notes the power purchase quantum and its cost proposed by MSEZL for FY 21. The Commission, in its Tariff Order dated, 14th May 2018, has modified the methodology to determine the power purchase cost to the deemed licensees (SEZ) operating in the State, for determination of ARR and retail supply tariff. The Commission decided to continue the same methodology adopted in Tariff Order dated 30th May, 2019 for computing the power purchase cost for the control period FY 20-22. Accordingly, for computing the power purchase cost, the Commission has considered the State's total purchase cost excluding the Hydro power, as the basis to arrive at the average cost of power, to be delivered at the IF point.

The Commission notes that the power purchase cost in the State is increasing, year on year, and this is having a direct impact on the SEZ power purchase cost who are procuring from the ESCOMs/ distribution licensees. Thereby the retail supply tariff to the consumers of SEZ is increasing.

Hence, with a view to keep the retail supply tariff to the SEZ consumers comparable with the tariff of the similarly placed consumers in the other ESCOMs and to avoid extra financial burden on the consumers of SEZ area, the Commission as being followed in Tariff Order dated 30th May, 2019, decides to include a margin on grid support charges, trading margin and energy handling charges including the transmission charges etc., at 75 paise per unit, while determining the per unit power purchase cost to be collected by MESCO from MSEZ's for FY21.

Accordingly, the computation of power purchase cost for FY21 is computed and shown in the following table:

TABLE - 2.4
Power Purchase Cost for FY21
(As per State approved PP cost excluding Hydro)

Particulars	Energy in MU	Cost Rs. Crores	Weighted Average PP cost Rs./ Unit
Approved State total power Purchase and cost	73104.34	37227.472	
Less:			
KPC & Other Hydro	11120.57	1145.07	
State PP cost excluding Hydro	61983.77	36082.40	5.821
Add: Trading Margin , Energy handling and Grid support charges including the transmission charges			0.750
PP cost at Interface Point			6.5713

The above computed per unit rate of power purchase cost includes a margin on energy handling, trading margin and grid support charges payable to MESCOM besides transmission charges payable to the KPTCL, PGIL, SLDC and POSOCO. **Hence, the Commission decides to approve the power purchase rate of Rs.6.5713 per unit for the energy delivered to MSEZL by MESCOM at the IF point, for FY21.**

As per the approved quantum of sales, the distribution losses and the power purchase at IF Point of MSEZL and the power purchase rate computed as above, the power purchase cost for FY21 is worked out as indicated in the following Table:

TABLE – 2.5
Approved Sales and Power Purchase cost for FY21

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. Crs
FY21	57.22	1.16	57.89	6.5713	38.04

Thus, the Commission approves power purchase cost of Rs. 38.04 Crores for FY21.

2.7 O & M Expenses:

MSEZL in its filing has requested to consider the O&M expenses of Rs.1.58 Crores as approved by the Commission in its tariff Order dated 30th May, 2019 for FY21.

MSEZL has submitted that it has considered the following aspects while arriving at the O&M expenses for FY21:

- a) The O&M expenses of Rs.1.46 Crores as per the audited accounts for FY19, as the base year for computing the O&M expenses for FY21.
- b) The weighted inflation index of 8.276%.
- c) The three-year CAGR of consumers.
- d) Efficiency factor at 0.5% is considered.

Commission's analysis and decision:

In accordance with the provisions of MYT Regulations and the methodology adopted in respect of ESCOMs, while approving the O&M expenses for FY21, 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 the control period is computed as follows:

TABLE – 2.6
Computation of Inflation Index

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

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2015	110.3	261.4	231.196	1.94	0.66	8	5.29
2016	110.3	274.3	241.5	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 FY21, the Commission has considered the following aspects:

- The actual O & M expenses of Rs.1.46 Crores as per the audited accounts for FY19 as the base for arriving at the base year O&M expenses for FY20 and FY21.
- 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 and as projected by the Commission for FY21 at 4.55%.
- The weighted inflation index (WII) at 8.2604% as computed above.
- Efficiency factor at 0.5%.

Based on the above said parameters, the Commission has computed the O&M expenses for the control period in the following table:

TABLE – 2.7
Approved O & M Expenses-FY21

Amount in Rs.Crores	
Particulars	FY21
No. of Installations	24
3 year CAGR of Consumers	4.55%
Inflation	8.2604%
Base Year O&M Cost for FY19(as per actuals of FY19)	1.46
O&M Index= O&M (t-1)*(1+WII-X)	1.92
O&M filed and claimed by MSEZ	1.58
Allowable O&M expenses	1.58

The Commission, as per the provisions of MYT regulations, has considered the O&M expenses as controllable expenses. Thus, the Commission as per this provision and by considering the submission of MSEZL, has decided to allow the O&M expenses to the level of O&M expenses as approved in its Tariff Order dated 30th May, 2019, though the normative allowable O&M expenses computed on the above norms is on the higher side. The Commission, with a view to reduce the tariff burden to the limited number of consumers with in the MSEZL area and also by considering the claims made by MSEZL, decides to limit the allowable O&M expenses to the level as claimed by the MSEZL.

Thus the Commission decides to approve the O&M expenses of Rs.1.58 Crores for FY21.

2.8 Depreciation:

MSEZL in its filing has requested to consider the normative O&M expenses of Rs.2.84 Crores as approved by the Commission in its tariff Order dated 30th May, 2019 for FY21. The Commission notes that MSEZL has not envisaged major additional capex works upto FY21, except for any replacement/spare purchases.

TABLE – 2.8
Depreciation for FY21 – MSEZL Submission

Sl. No.	Particulars	Amount in Rs. Crores				
		GFA as at 31.03.2020	GFA as at 31.03.2021	Average GFA –	Rate (%)	Depreciation
1	Building	2.84	2.84	2.84	3.34%	0.09
2	Civil -Roads	0.87	0.87	0.87	3.34%	0.03
3	Substation	21.28	21.28	21.28	5.28%	1.01
4	UG Cables	35.92	35.92	35.92	5.28%	1.71
Total depreciation						2.84

Commission's analysis and decision:

The Commission has taken note of the opening and closing balance of GFA and the amount of depreciation charged as per the bifurcated audited accounts of MSEZL's license activity for FY19 and the data as furnished under Format D-8 and D-15 for FY21. The Commission further notes that, MSEZL has not proposed any

addition to the assets during FY21 and has assumed that the opening and closing balance of GFA for FY21 remain constant throughout the year and claimed the same amount of depreciation as approved by the Commission in its tariff Order dated 30th May, 2019 for FY21.

In accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, the allowable depreciation has been determined by the Commission duly considering the data of assets as per MSEZL's audited accounts for FY19 and the value of assets as projected under D-8 and D-15 format for FY21 and computed the depreciation amount as indicated in the following Table:

TABLE – 2.9
Approved Depreciation for FY21

Particulars	Opening balance of GFA as on 01.04.2020	Amount in Rs. Crores	
		FY21	
		Closing Balance of Asset as on 31.03.2021	Depreciation
Buildings	2.84	2.84	0.09
Civil works	0.87	0.87	0.03
Plant & Machinery	21.28	21.28	1.01
Line, Cable Network	35.92	35.92	1.71
Furniture	0.02	0.02	0.00
Office Equipment	0.05	0.05	0.00
Total	60.99	60.99	2.84

Thus, the Commission decides to approve the depreciation amount of Rs.2.84 Crores, for FY21.

2.9 Interest on loans:

MSEZ, in its filling has claimed under format D-9, Rs.3.148 Crores towards interest on capital loan, which also includes interest of Rs.1.079 Crores on normative loan basis for FY21. MSEZ submitted that, the weighted average interest rate on loans for FY 20 is 8.80% per annum and thus, they have considered the same rate of interest for computing the interest on capital loan for FY21. MSEZ has not proposed

any new borrowing of capital loan during FY21. MSEZ informed that they have considered the actual capital loan repayment of Rs.0.71 Crores for FY21.

The interest on loan claimed by the MSEZL are as follows:

TABLE – 2.10

Interest on Loan Capital for FY 21 - MSEZLs' Submission

Amount In Rs. Crores		
Sl. No.	Particulars	FY 21
1	Opening balance	23.87
2	Add: New loans	0.00
3	Less: Repayments	0.71
4	Total loan at the end of the year	23.16
5	Average loan	23.515
6	Rate of interest %	8.8%
7	Interest on capital loan claimed	2.069

TABLE – 2.11

Normative Interest for FY 21

On equity exceeding 30% of GFA - MSEZL's Submission

Amount In Rs. Crores		
Sl. No.	Particulars	FY 21
1	Normative debt Opening balance	67.16
2	30% of GFA (eligible for allowance of RoE)	20.15
3	Opening balance of equity	32.42
4	Equity in excess of 30% of GFA (3-2)	12.27
5	Allowable interest in %	8.8%
6	Allowable normative interest	1.079

Commission's analysis and decision:

The Commission notes that MSEZL has not proposed any new borrowings of capital loan during FY21. However, it has considered repayment of loan to an extent of Rs.0.71 Crores for FY21. The Commission also takes note of the total capital loan balances of MSEZL as a whole and of its licensed activity, as per the audited accounts for FY19. The Commission has reckoned Re.1.00 Crore as repayment of capital loans for FY21. Further, the Commission notes that the weighted average

rate of interest during FY19 and FY20 is 8.23%. This rate of interest is considered for computation of interest on capital loans for FY21.

The Commission has worked out the allowable interest on the capital loans for each year of the control period as shown in the following Table:

TABLE – 2.12
Approved Interest on Loan for FY21

Amount in Rs. Crores	
Particulars	FY21
Long term secured & unsecured loans	22.87
Add new Loans	0.00
Less: Repayments	1.00
Total loan at the end of the year	21.87
Average Loan	22.37
Interest Rate allowed	8.23%
Allowable Interest on loan	1.84

In addition, the Commission as per the provisions of MYT Regulations, has allowed the interest on normative loan basis on the excess of equity over 30% of Gross Fixed Assets at Rs.67.16 Crores for FY21 as under:

TABLE – 2.13
Allowable Normative Interest on excess equity for FY21

Amount in Rs. Crores	
Particulars	FY21
Opening balance of GFA	67.16
30% of GFA(Eligible for allowance of RoE)	20.148
Opening balance of Equity	34.180
Equity in excess of 30% of GFA (3-2)	14.03
Allowable interest in %	8.23%
Allowable normative interest	1.15

Thus, the Commission decides to approve the total interest on capital loans inclusive of normative interest of Rs.2.99 Crores for FY21.

2.10 Interest on Working Capital Loan:

The MSEZL in its filing has claimed Rs.0.95 Crores towards the interest on working capital as against Rs.1.00 Crore as approved by the Commission for FY21. MSEZL has considered SBI, MCLR effective as on 10th November, 2019 plus 250 basis points for determining interest on working capital at 10.50% for FY21.

The computation of interest on working capital by MSEZL for FY 21 is as under:

TABLE – 2.14

Interest on Working Capital MSEZL Proposal for FY21

Amount in Rs. Crores

Particulars	FY 21
O&M expenses for one month	0.13
Opening gross fixed assets	67.16
Spares at 1% on GFA at the beginning of the year	0.67
Receivables equivalent to 2 months avg. billing	8.24
Total working capital	9.04
Rate of interest (% p.a.)	10.50%
Interest on Working capital	0.95

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, spares at 1% of opening GFA and two month's revenue receivables. The Commission notes that, the MSEZL in its filing has claimed the interest on working capital at 10.50%. Considering the present MCLR based interest rate on the short-term loans up to the term of one year at 7.15% to 7.85% and the additional 250 basis points, as per the provisions of MYT Regulations, the Commission decides to allow the interest rate of 10.35% for allowing the interest on working capital for FY21. This rate of interest now allowed by the Commission in approving the revised ARR is subject to review while undertaking APR for FY21.

The approved interest on working capital loans is worked out as follows:

TABLE – 2.15
Approved Interest on Working Capital – FY21

Amount in Rs. Crores	
Particulars	FY 21
One-twelfth of the annual amount of O&M Expenses	0.13
Opening GFA as per Audited Accounts	67.16
Stores, materials and supplies 1% of Opening balance of GFA	0.67
One-sixth of the Revenue	8.17
Total Working Capital	8.97
Rate of Interest (% p.a.)	10.35
Interest on Working Capital	0.93

Thus, the Commission decides to approve 0.93 Crores as the interest towards working capital.

2.11 Interest on Consumer Security Deposits:

MSEZL in its filing has claimed Rs.0.40 Crores towards interest on Consumer Security Deposits for FY21. MSEZL submitted that, it has considered RBI bank rate 6.5% per annum on the average consumer security deposits of Rs. 3.81 Crores for computation of interest on consumer security deposits for FY21.

Commission's analysis and decisions:

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 the Reserve Bank of India notification dated 4th October, 2019, the bank rate is 5.40%. The Commission has considered the same for computation of interest on consumer security deposits for FY21.

The Commission has considered the average consumer security deposits amount as proposed by the MSEZL and approved the interest on consumer security deposits for FY21 as under:

TABLE – 2.16
Approved Interest on Consumer Security Deposits for FY21

Amount in Rs. Crores	
Amount in Rs. Crores Particulars	FY21
Opening Balance of Consumer Deposits as per Accounts	6.22
Closing Balance of Consumer Deposits as per Accounts	6.22
Average Deposit	6.22
Rate of Interest Allowed	5.40%
Allowable Interest on Consumer Deposit	0.34

Thus, the Commission decides to allow the interest on Consumer Security Deposits of Rs.0.34 Crores for FY21.

2.12 Return on Equity (RoE):

MSEZL in its filing has claimed the return on equity (RoE) of Rs.3.12 Crores, for FY 21 as follows:

TABLE – 2.17
ROE as proposed by MSEZL for FY21

Amount in Rs. Crores	
Particulars	FY 21
The actual Equity share capital	35.55
Opening balance of accumulated deficit	-3.13
Opening balance of Net Equity	32.42
Opening Balance of Fixed assets	67.16
Normative equity at 30% of opening GFA	20.148
RoE at 15.5%	3.12

Commission's analysis and decision:

The Commission, in accordance with the provisions of the MYT Regulations, has considered 15.5% of Return on Equity. As per the submission made by MSEZL, income Tax / Mat is not considered as the Company is under tax holiday under section 80-1AB.

The Commission notes that, as per the bifurcated audited accounts of MSEZL's license activity for FY19, the closing balance of share capital is Rs. 35.55 Crores,

and the accumulated deficit under reserve and surplus account is Rs.3.13 Crores. The Commission having recognized the net equity of Rs.32.42 Crores as at the end of March, 2019, has decided to reckon the same amount as the opening balance of net equity for computation of RoE for FY20 and FY21. However, the Commission, as per the provisions of MYT Regulations also has considered 30% of the total value of opening balance of the proposed Gross Fixed Assets (GFA), as the maximum allowable equity while allowing the RoE for FY21. Thus, the Commission decides to approve the allowable RoE for FY21 as detailed in the following table:

TABLE – 2.18
Approved Return on Equity for FY21

Amount in Rs. Crores	
Particulars	FY21
Opening balance of Share Capital	35.55
Opening balance of Accumulated deficit	-1.37
Net Equity at the beginning of the year	34.18
Eligible Equity to allow RoE @ 30% of Opening balance of GFA	20.15
Allowable RoE by considering 30% of GFA at 15.5%	3.12
Approved RoE at 15.5% by the Commission	3.12

Thus, the Commission decides to approve RoE of Rs.3.12 Crores, for FY21.

2.13 Other Income:

MSEZL has claimed the Other Income of Rs.0.28 Crores for each FY21. The Commission, by considering the amount of other income actually earned during the previous years has decided to approve the Other Income of Rs.0.33 Crores for FY21.

2.14 Abstract of Approved ARR for FY21

Based on the above analysis and decision of the Commission, the net approved ARR for FY21 is as follows:

TABLE – 2.19
Approved ARR for FY21

Amount in Rs. Crores	
Particulars	FY21
Power Purchase Cost	38.04
O&M Expenses	1.58
Depreciation	2.84
Interest on Capital Loan	2.99
Interest on Working Capital	0.93
Interest on Consumer Security Deposit	0.34
RoE	3.12
Less: Other Income	-0.33
Net ARR	49.51

2.15 Average Cost of Supply:

TABLE – 2.20
Average Cost of Supply

Year	Approved Net ARR Rs. Crores	Sales(MU)	Average Cost of Supply Rs. per unit
FY21	49.51	57.22	8.65

2.16 Revenue:

The MSEZL has indicated revenue of Rs.48.47 Crores from the sale of energy of 57.22 MU for FY21, at the existing retail supply tariff approved by the Commission. The Commission has considered the revenue at Rs.49.11 Crores at existing tariff for the approved sale of 57.22 MU for FY21.

2.17 Gap in Revenue

As discussed above, the Commission has decided to approve the ARR of MSEZL for Rs.52.19 Crores by including the net revenue gap of FY19 for Rs.2.68 Crores as against the MSEZL proposal of ARR of Rs.49.46 Crores for FY21.

Based on the existing retail supply tariff, the total revenue realization from sale of power will be Rs.49.11 Crores, resulting in a revenue deficit of Rs.3.08 Crores as against the approved ARR of Rs.52.19 Crores for FY21.

TABLE – 2.21
Revenue Gap for FY21

Net approved ARR including carry forward revenue gap of FY19 (in Rs. Crores)	52.19
Approved sales (in MU)	57.22
Average cost of supply (in Rs. Per unit)	9.12
Revenue at existing tariff (in Rs. Crores)	49.11
Deficit in Revenue (in Rs. Crores)	3.08

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

2.18 Gap in Revenue for FY19 and FY21:

MSEZL in its application has submitted that, upon truing up of the power purchase cost as per APR for FY19, if the Commission approves any increase in the power purchase cost to be payable to MESCOM, the increase in power purchase cost should not be carried forward and added to the revised ARR for FY21. MSEZL further submitted that, to ensure equitable recovery from all the consumers, the increased power purchase cost may be allowed to be recovered in proportion to the energy consumed by the respective consumers in FY19.

The Commission takes note the submission made by the MSEZL for recovery of the unabsorbed unmet gap of Rs.2.687 Crores because of increase in the approved power purchase cost for FY19. The Commission decides to accept the proposal of MSEZL and allows recovery of the deficit of FY19 of Rs.2.687 Crores, over a period of next two years in two yearly instalments from 01.11.2020, from its consumers in proportion to the energy consumed by the respective consumers in FY19. Accordingly, the gap in revenue of Rs.0.40 Crores for FY21 (Rs.3.08 Crores-Rs.2.68 Crores) is proposed to be filled up by revision of retail supply tariff for FY21.

MSEZL in its filing has proposed the revenue gap of Rs.0.99 Crores for FY21 and proposed an increase in energy charges by 18 paise per unit across all the category of consumers for FY21. However, the deficit of Rs.0.99 Crores is arrived based on power purchase cost at Rs.6.513 per unit. MSEZL has requested the

Commission that if there is any increase in the power purchase cost, the same may be allowed to be recovered fully through retail supply tariff for FY21.

2.19 Regulatory Asset:

The Commission was unable to issue the Tariff Orders for FY21 till October 2020 for the following reasons:

- a) Due to total lock down declared by the Government of India / Government of Karnataka on account of Covid-19 pandemic and pendency
- b) Pendency of Appeal No.97/2020 filed by the KPTCL before the Hon'ble Tribunal against the Commission's Order dated 16.01.2020 and disposal of the said Appeal by the Hon'ble Tribunal vide Order dated 05.10.2020.
- c) Applicability of the Code of Conduct on account of announcement of bye-Election to Assembly Constituency No.136-Sira and 154-Rajajageswari Nagar scheduled on 03.11.2020, by the Election Commission of India, vide Gazette Notification dated 09.10.2020.

The Commission takes note of the various restriction and measures initiated and enforced by the Gol/Gok during lock down period, to prevent the spread of Corona Virus which has been declared as a Pandemic (COVID-19). This has resulted in setback to all the economic activities, hugely affecting all the sections of the Society, socially and economically. Hence, the consumers could not be burdened with tariff increase from 01.04.2020. However, the tariff increase is imminent due to substantial increase in power purchase cost and other costs to be incurred by the MSEZ.

In order to tide over the present adverse financial situation, the Commission has decided to give effect to the Order to increase the Tariff from 1st November, 2020. This, in effect, would give relief on account of increased tariff for seven months to the consumers and the Commission hopes that due to gradual relaxation of lockdown conditions, the economic activities would resume and the consumers have to bear the revised tariff from 1st November 2020 onwards.

Due to the postponement of the recovery of the revised tariff, out of the projected additional revenue of Rs.0.40 Crores from revision of tariff, Rs.0.23 Crores remains unrecovered and hence the Commission decides to treat it as Regulatory Asset to be recovered in the Tariff for FY22. The Commission also decides to allow carrying cost at 10% per annum (based on the current MCLR plus reasonable Basis points) on the amount of Regulatory Asset which will be assessed at the time of the Annual Performance Review (APR) of FY22. An amount of Rs.0.17 Crores is proposed to be realized as additional revenue through revision of tariff to different categories of consumers during the five months in FY21.

TABLE – 2.22
Revenue Gap for FY21

Net approved ARR including carry forward revenue gap of FY19 (in Rs. Crores)	52.19
Approved sales (in MU)	57.22
Revenue at existing tariff (in Rs. Crores)	49.11
Deficit in Revenue (in Rs. Crores)	3.08
Less: FY19 Gap allowed to recovered separately	2.68
Remaining Gap to be recovered during FY21 (Rs.in Crores)	0.40
Regulatory Asset to be recovered during FY22 (Rs.in Crores)	0.23
Gap to be recovered during FY21 – Five months (Rs.in Crores)	0.17

The Commission has taken note of the submission made by the MSEZL, on the retail supply tariff and after considering various aspects, as discussed above, the Retail Supply Tariff for FY21 is approved as under:

2.20 Retail Supply Tariff of MSEZL for FY21:

The Approved retail supply tariff as follows:

TABLE – 2.23
Approved Retail Supply Tariff of MSEZL for FY21

Category	Particulars	Rate
HT Industrial		
	Demand Charges Rs./KVA/month	220.00
	Energy Charges Rs./kWh	7.20
HT Construction/ Temporary		
	Demand Charges Rs./KVA/ month	260.00
	Energy Charges Rs./kWh	11.00
LT Industrial	Fixed Charges Rs./ KW/ Month	210.00
	Energy Charges Rs./kWh	6.75
LT Construction s/ temporary	Fixed Charges Rs./ KW/ Month	250.00
	Energy Charges Rs. / kWh	11.00

2.21 Wheeling Charges and Cross Subsidy Surcharge (CSS):

The Commission in its preliminary observation had directed MSEZL to work out the wheeling charges, CSS and additional surcharge considering its own costs for FY21.

MSEZL in its reply to the preliminary observation, has requested the Commission to approve the wheeling charges and CSS for FY21 by adopting similar procedure as adopted in the previous Order.

The Commission, while noting the reply furnished, decides that the wheeling charges as determined for MESCOM shall be applicable to MSEZL as well.

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

The cross-subsidy surcharge determined shall be applicable to all open access/wheeling transactions in the area coming under MSEZL. However, the above CSS shall not be applicable to captive generating plant for carrying

electricity to the destination of his own use and for those renewable energy generators who have been exempted from CSS by the specific orders of the Commission.

The Commission reiterates that the Licensees shall 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.

2.22 Additional Surcharge:

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

2.23 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 approves the revised ARR as per APR for FY19, and determines the revised ARR and Retail Supply Tariff of MSEZL for FY21 as per Table 2.22 & 2.23 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 November, 2020, 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 4th of November, 2020.**

Sd/-
(Shambhu Dayal Meena)
Chairman

Sd/-
(H. M. Manjunatha)
Member

Sd/-
(M.D. Ravi)
Member