KARNATAKA ELECTRICITY REGULATORY COMMISSION

TARIFF ORDER 2024

OF

MSEZ

ANNUAL PERFORMANCE REVIEW FOR FY23

&

APPROVAL OF REVISED ANNUAL REVENUE REQUIREMENT FOR FY25

&

REVISION OF RETAIL SUPPLY TARIFF FOR FY25

28TH FEBRUARY, 2024

No. 16 C-1, Miller Tank Bed Area, Vasanthnagar, Bengaluru-560 052

Phone: 080-22268677/22268678/22268679
Fax: 080-22268667/22370214
Website: https://karunadu.karnataka.gov.in/kerc
E-mail: kerc-ka@nic.in

CONTENTS

LIST OF TABLES

BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION

No.16C-1. Miller Tank Bed Area, Vasanthnagar
BENGALURU - 560 052

Dated 28th February, 2024

Present:

Shri P. Ravi Kumar	......	**Chairman**
Shri M.D.Ravi	......	**Member**

O R D E R

Application of MSEZL for Annual Performance Review for FY23 and Revision of Annual Revenue Requirement the Distribution & Retail Supply Tariff for FY25

1. Preamble:

As per the Extraordinary Gazette Notification dated 03.03.2010, issued by the Ministry of Commerce, Government of India, all the Special Economic Zones notified under sub-Section (1) of Section 4 of the SEZ Act, 2005, shall be deemed to be a Licensees under Section 14 of the Electricity Act, 2003. The Mangalore Special Economic Zone Ltd, by virtue of the aforesaid Notification issued by Government of India, became a deemed Distribution Licensee, w.e.f 03.03.2010.

The Mangalore Special Economic Zone Ltd., (hereinafter referred to as MSEZL) has filed the application dated 27th November, 2023, for the approval of ARR as per APR for FY23, approval of ARR for FY25 and determination of retail supply tariff for FY25, in terms of the KERC Tariff Regulations and the MYT Regulations.

In exercise of the powers conferred under Sections 62 and 64 and other provisions of the Electricity Act, 2003, KERC (Terms and Conditions for

Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations 2006, read with the KERC (Tariff) Regulations, 2000 and other enabling Regulations, the Commission has considered this application and also considered the views and objections submitted by the consumers and other stakeholders while passing this Order. The Commission's decisions on various aspects, are brought out in the subsequent Chapters of this Order.

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

2. Licensee's Profile:

The MSEZL was incorporated as a Company in February, 2006 under the Companies Act, 1956, having its registered office at Infantry Road, Bengaluru and its site office located at Sy.No.168/3A, Plot No.U-1, Administrative Building, MSEZ, Bajpe Village, Mangalore Taluk, Dakshina Kannada District, Karnataka – 574142. The MSEZL is an SPV co-promoted by the Oil and Natural Gas Corporation Ltd, (ONGC), the Infrastructure Leasing & Financial Services Ltd, (IL&FS), the Karnataka Industrial Areas Development Board (KIADB) and the Kanara Chamber of Commerce and Industries (KCCI).

Based on the availability of contiguous parcel of land, MSEZ has been notified as a Sector Specific SEZ for Petroleum & Petrochemical sector in 2007, spread over 1620 acres. The SEZ has been catering to the intermediate petrochemical units and downstream petrochemical industries adjacent to MRPL refinery and the existing aromatics complex of OMPL.

Now, MSEZL being upgraded to Multi Product, the SEZ can attract investments from sectors viz., Petroleum & Petrochemical Products, Plastics, IT & ITES, Pharma, Textiles and Manufacturing & Others. Currently, MSEZL has attracted investments from Petrochemicals, Pharma and Food Processing Industries.

3. MSEZL's Activities:

a) MSEZL has constructed 110/33/11KV substation (GSS-03) with installed capacity of 40MVA, which can be augmented, to 80 MVA to cater to power requirement of various units. Though MSEZL is a multiproduct SEZ, majority of industries located in it are petrochemical industries and as per the norms of OSID, MSEZL receives and distributes power to all its consumers by underground cables only. A stable and quality power supply is being provided to 11KV consumers through Ring Main Units which are inter-linked with UG cables and for 33KV consumers the supply is directly fed through radial feeders emanating from 110/33/11KV GSS-03.

b) The 110/33/11KV GSS-03 of substation receives stable power from the nearby 220/110/11KV Main Receiving Sub-station of KPTCL at Bajpe, for which 13.939 acres of land within the MSEZL area is leased to KPTCL. From this receiving sub-station, MSEZL has laid twin circuits of copper underground cables of 110KV class 400-sqmm cable to GSS-03, each circuit is capable of delivering 80MVA power, with an augmentation. The total route length of the twin circuits is 1.9 kms.

c) In the upstream 220/110/11KV Main Receiving Sub-station of KPTCL, the power is sourced through the 220KV Double circuit line from Kemar to Kavoor. This line is integrated to the grid network of KPTCL and further to the southern grid of India.

4. Consumer of MSEZ:

The details of consumers of MSEZL as at the end of 31st March, 2023 is shown hereunder:

Consumers of MSEZ During FY23

Sl. No	Customers
1	ONGC Mangalore Petrochemicals Limited
2	Indian Strategic Petroleum Reserves Limited
3	Syngene International Limited, a Biocon Company
4	Catasynth Specialty Chemicals
5	Cardolite Specialty Chemicals LLP
6	Authentic Ocean Treasure
7	Gadre Marine Export Private Limited
8	Yashaswi Fish Meal & Oil
9	Shree Ulka LLP
10	MSEZL utility installations

Consumers Profile as on 31.03.2023.

As on 31st March 2023, the Company provided power supply to consumers at different voltage levels, as under: -

Sl. No.	Class of Consumer	No. of consumers	Voltage class	Sanctioned load MVA
1	HT – Industrial	19	33/11KV	30.35
2	LT – Industrial	10	440 V	0.19
	Total	**29**		**30.54**

5. Background for filing the Tariff application:

The Commission, in its Order dated 4th April, 2022 had approved revised ARR under APR for FY21, revised ARR for FY23 and had determined retail supply tariff for FY23.

Now, the MSEZL has filed an application on 29th November, 2023. MSEZL with the averments made in the respective Chapters of the present application duly detailing the revision of annual revenue requirement and expected revenue from the existing tariff charges, MSEZ respectfully prays the Hon'ble Commission to:

a. Pass appropriate order on APR for FY23, based on detailed submissions made in Chapter 4.
b. Pass appropriate order for revision of Load forecast, Sales plan, Power Purchase plan and capex plan for FY25, based on submissions made in Chapter 5.
c. Pass appropriate order for the revision of ARR for FY25, based on the detailed submissions made in Chapter 6.
d. Pass appropriate order for recovery of open access charges for FY25, based on detailed submission made in Chapter 7.
e. Consider the retail supply tariff proposal and approve the tariff charges for FY25 submitted in Chapter 8.
f. Consider the other tariff related proposals as detailed in Chapter 9.

g. Condone any errors, omissions and deletions in the petition and give a chance to provide any other necessary information as deemed fit by the Commission.
h. Pass appropriate orders on the application made by the Company.

6. Acceptance of Applications and Consultation Process:

The Commission, vide its letter dated 20th December, 2023 communicated its preliminary observations on the filing and MSEZL, in its letter dated 29th December, 2023 has furnished its replies.

The Commission, vide its letter dated 2nd January, 2024, informed the MSEZL that, its application filed on 29th November, 2023, for approval of APR for FY23 and approval of ARR for FY25 and revision of retail supply tariff for FY25 in the Mangalore SEZ area, has been treated as a petition in terms of the Tariff Regulations, subject to further verification and validation and informed it to publish a summary of the application in the leading newspapers in the distribution area of the MSEZL, inviting objections/comments/suggestions from the consumers and other stakeholders.

Accordingly, the MSEZL has published the summary of its application on 5th and 6th January, 2024 the following Newspapers:

Kannada Newspapers	: Vijayakarnataka, Vijayavani, Udayvani Hosadiganta
English Newspapers	: Deccan Herald, The New Indian Express. The Hindu

7. Public Consultation:

1. As part of the process of public consultation in pursuance of Section 64 of the Electricity Act, 2003 and in order to obtain suggestions/views/objections from the interested stake-holders on the Tariff application filed by MSEZL the Commission undertook the process of public hearing on 12.02.2024. In the written submissions one stake-holder has raised objections to the Tariff

Applications filed by MSEZL. The name of the person who has filed written objections is given below:

List of persons who filed written objections within due date:

Sl.No	Name & Address of Objectors
1	Sri. Abdul Rahman Musba, Head(Finance), M/s Cardolite Specialty Chemicals India LLP, MSEZ, Bajpe village, Mangaluru-574142

The objections/suggestions mainly pertain to:

a. Tariff;

b. Open Access Charges;

c. Certain specific requests;

The gist of objections, Replies by MSEZL and the Commission's Views are as below:

No.	Objections	Replies by MSEZL
1.	Section 61 of the Electricity Act, 2003 gives the guidelines for the determination of Tariff. Nine guidelines have been given in that section, out of which we are presenting here below three of the important guidelines: a) The generation, transmissions, distribution and supply of electricity are conducted on commercial principles. b) Safeguarding of consumers' interest and at the same time recovery of the cost of electricity in a reasonable manner. c) That the Tariff progressively reflects the cost of supply of electricity and also reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission.	The para is only a part factual submission on section 61 of Electricity Act, 2003 and hence, no comments are offered.
	Commission's Views: The Commission, as far as possible is complying with the guidelines as per Section 61 of the Electricity Act-2003.	
2.	The Hon'ble Commission should note that the business model of Mangalore	We wish to bring to the kind attention of the Hon'ble Commission

No.	Objections	Replies by MSEZL
	SEZ Limited and the business model of the various other Discoms operating in Karnataka are different. While, other Discoms have to provide power infrastructure spread over a huge area and build up the facility to give last mile connectivity to consumers, Mangalore SEZ Limited has to create infrastructure for a limited saleable area of around 900 acres. Further, the sales of power depend on the ability of Mangalore SEZ Limited to attract new investors (Customers) to its Special Economic Zone. It is normal for a start-up to have less capacity utilization in the initial years, however, it would be unfair that the unabsorbed overhead (including interest and depreciation) be charged to the existing few units of Mangalore SEZ Limited. Further, we wish to bring to the notice of Commission that, MSEZL has no plan for additional capex except some minor expenditure of Rs.75 lakhs in the previous year. The existing capacity of 40MVA transformer is sufficient as the actual capacity is much lower. From the 1st Tariff application in 2015-16 to the 10th Tariff application in 2024-25, after considering the increase in actual power consumption and demand, there is no need for augmentation of sub-station capacity. Hence, the installed capacity itself is on the higher side for which MSEZL has recovered higher depreciation and interest / return of equity.	that the objector continues to repeatedly raise these points and we have already given replies to these set of points in tariff filing relating to FY16, FY17, FY18, FY19, FY20, FY21, FY22, FY23 and FY24. The Hon'ble Commission has in detail analyzed and readdressed to similar set of points raised by objector in review petition 16/2018. Accordingly, the Hon'ble Commission has dismissed review petition 16/2018 vide order dated 28.05.2019. Thus, no comments are offered by the petitioner. Further, the Hon'ble Commission considering the facts has judiciously issued tariff orders.
	Commission's Views: The Commission notes the reply provided MSEZL. The Consumers of MSEZL are also governed by the MYT Regulations applicable to all the distribution licensees. Hence, no useful purpose is served by repeatedly raising this issue.	
3.	When the Multi Year Tariff regulations was notified, Karnataka had Public Sector Undertaking as Discom, which would distribute all the power in the State. However, in the recent years, various private players have been	The objector has sought for the amendments in the Tariff regulations which is in the domain of the Hon'ble Commission and hence, no comments are offered. The parity in end tariff is ensured by the Hon'ble

No.	Objections	Replies by MSEZL
	approved to supply and distribute power in certain areas, especially, the SEZ developer, who are deemed distributors of power. The development of SEZ is over a relatively a very small area, may be around 1 to 2 thousand acres as compared to other Discoms like BESCOM, which cover a few districts. Hence, the existing guidelines are not suitable for the users of Power within SEZ area. We have given our suggestions for draft Karnataka Electricity Regulatory Commission (Multi Year Transmission, Distribution and Retails Supply Tariff) Regulations 2023. The same may be considered for fixing Tariff for FY2025.	Commission by determining the tariff so that a similar class of consumers in the same area of operation are not put into a disadvantageous position. Thus, it may please be noted that the petitioners' consumers are not paying more than the tariff rate paid by similarly paced consumers in the same area of operation. Even for FY 24, the consumers of petitioner are paying less energy charges as compared to other consumers in the same area of operation.
4.	Considering the request to amend the Multi Year Tariff regulations for SEZ Developers, the interest on Capital, Depreciations on the actual infrastructure required which is considered in the draft Karnataka Electricity Regulatory Commission (Multi Year Transmission, Distribution and Retails Supply Tariff) Regulations 2023, as well.	
	Commission's Views: The Commission notes the objection and reply provided MSEZL.	
5.	We request that the recovery of mark up on cost component on MESCOM power procurement should be reduced to 50 paise / unit from the present 75 per paise / unit.	The Hon'ble Commission is kindly requested to pass suitable orders on MESCOM PP cost for the benefit of the consumers.
	Commission's Views: The Commission notes the objection and reply provided MSEZL. The Power purchase costs are being computed as per the Commissin's decision and the same is indicated in the tariff Order.	
6.	It appears from various submission of Mangalore SEZ ltd, that Mangalore SEZ Ltd is still getting confused on the Wheeling Charges and Additional Surcharge. The Hon'ble Commission has clearly stated in the preliminary observation in 2024 Tariff petition as under: As for as additional surcharge is	The Hon'ble Commission in compliance of the Orders of the Hon'ble Appellate Tribunal dated 15.09.2022 in Appeal No. 260/2018 and Appeal No.43 of 2021 had determined the Additional Surcharge (ASC) of Rs.1.48 per unit applicable to all Open Access transactions in the State of Karnataka. The said Order was

No.	Objections	Replies by MSEZL
	concerned, as stated earlier, MSEZL has to demonstrate with working details that the obligation of a licensee, in terms of existing power purchase commitments, has been and continues to be stranded, or there is an unavoidable obligation and incidence to bear fixed costs consequent to such a contract. The orders of the Hon'ble Appellate Tribunal dated 15.09.2022 in Appeal No. 260/2018 and Appeal No.43 of 2021 is very clear on this matter. Further, while passing order in for the Tariff of Mangalore SEZ Ltd, the Hon'ble Commission observed: The Commission notes that the additional surcharge has nothing to do with the network charges and as per the Electricity Act, the same has to be levied on consumers to receive the supply from a person other than the area distribution licensee so as to meet the fixed cost of the distribution licensee arising out of is obligation to supply. Further, the Tariff policy, 2016 has clarified that the additional surcharge, for obligation to supply as per section 42(4) of the Act should become applicable only if it is conclusively demonstrated that the obligation of a licensee, in terms of existing power purchase commitments, has been and continues to be stranded, or there is an unavoidable obligation and incidence to bear fixed costs consequent to such a contract. The fixed costs related to network assets would be recovered through wheeling charges. Due to the preliminary observations and the order of KERC, Mangalore SEZ Ltd had not charged that Additional Surcharge on Open Access Consumer	challenged by Soham Renewable Energy India Private Limited and Another Vs. Karnataka Electricity Regulatory Commission and others in W.P. No. 10401 of 2023, wherein the Hon'ble High Court set aside the said order in so far as it related to levying additional surcharge. Subsequently, the Hon'ble Commission scheduled a hearing in the matter on 18.08.2023 and considered all the submissions made by all stakeholders including the Hon'ble APTEL orders. The Hon'ble Commission after considering all the submissions & hearing the stakeholders has considered "what methodology should be adopted for determining the additional surcharge and what should be the ASC for FY24?". Thereby, the Hon'ble Commission vide order N/68/2023 dated 17th November 2023 had determined ASC as Rs.1.40/unit. Further, for open access consumers drawing energy from renewable sources the ASC was determined as Rs.0.70/unit. The petitioner submissions on ASC for FY25 are borne out of the facts considered and methodology determined by the Hon'ble Commission in its order N/68/2023 dated 17th November 2023. The petitioner would also like to bring to the kind attention of the Hon'ble Commission that in pursuance to the objectors RP 9 of 2023 on ASC, the Hon'ble Commission in the case called for

No.	Objections	Replies by MSEZL
	like Cardolite. However, Mangalore SEZ Ltd took undue advantage of the 17th November 2023 order of the KERC and levied Additional Surcharge of the previous months in complete disregard to the observations of KERC in the preliminary observations and order and also disregarding the Appellate Tribunal Order. We were forced to approach the Hon'ble Commission twice on the same matter as Mangalore SEZ Ltd did no honour its words given to the Hon'ble that they are not charging Additional Surcharge. We kindly request the Hon'ble Commission not to consider any additional surcharge for open access consumer as Mangalore SEZ Ltd has not conclusively demonstrate any fixed cost on stranded power purchase obligations. Further, the claim for additional surcharge was not made in the original tariff petition which was submitted on 27th of November 2023 but on 4th December 2023. Hence, it is clear that the claim for additional surcharge is and after-thought by trying to take advantage of the KERC Order 17th November 2023.	hearing on 25.07.2023 had directed the objector to come for public hearing scheduled on 18.08.2023 & make submissions on ASC. However, as per petitioner understanding the objector had not represented in the public hearing held on 18.08.2023 on ASC.
	Commission's Views: The Commission notes the objection and reply provided MSEZL.	
7	As regards to the Wheeling Charges, Mangalore SEZ Ltd has taken different stand in FY2022-23. Cardolite is buying power from two different power generators. One of the generator, Mangalore SEZ Ltd is covered under Green Access Open Regulation and other generator, the earlier regulation is applicable. Mangalore SEZ Ltd has charged the wheeling charges for both the generators despite being informed in	**No Reply from MSEZL.**

<table>
<tr><th>No.</th><th>Objections</th><th>Replies by MSEZL</th></tr>
<tr><td></td><td>writing that the wheeling charges is not applicable for the generator who is covered under earlier regulations. In November 2023, Mangalore SEZ ltd has reversed the charges for wheeling charges for the said generator.</td><td></td></tr>
<tr><td></td><td colspan="2">Commission's Views: The Commission notes the objection and no reply of MSEZL.</td></tr>
<tr><td>8</td><td>We have noted that Mangalore SEZ Ltd has attempted to compute Wheeling Charges as per the directive of the KERC for the first time except for the allocating 30% for HT consumers. However, Mangalore SEZ Ltd failed to reduce the Rs.9.57 Crores which was earned as contract demand charges. If the contract demand is not reduced from the computation of Wheeling Charges, the open access consumer would be forced to pay twice for the same services provided by Mangalore SEZ Ltd. This would result in unjust enrichment of Mangalore SEZ Ltd against Cardolite. Nearly the whole of the distribution charges are covered by Contract Demand and in order to promote Green Energy.</td><td rowspan="2">The petitioner has proposed the FY25 wheeling charges as per the directives of the Hon'ble Commission contained in Tariff order 2023 dated 12.05.2023 and study of general methodology adopted by ESCOMS. Also, cost is segregated into retail & distribution business and allocated after studying the ratio of HT & LT networks in the petitioner own distribution area.

The petitioner has developed the SEZ primarily for industrial HT consumers. Further, out of the FY25 projected contract demand of 30.65 MVA the LT network category is only 0.30 MVA which is around 1% of total network. In the petitioner area of operations, the consumers under HT installation category contribute to 99.3% of sales and LT installation category consumers contribute to only 0.07% sales. Hence, network ratio of other ESCOMS is not applied for allocation of costs. Thus, the FY25 proposal for recovery of 95% network charges from HT consumers is based on the objective assessment of the proportion of HT and LT networks & installations in distribution area.

Further, it should be noted that by nature of extent of area of operations, class of consumers and available infrastructure in the</td></tr>
<tr><td>9</td><td>KERC has always considered the wheeling charges for HT consumers as 30% of the distribution cost for the last 20 years. Further, KERC has codified 30% for HT consumers in the Draft KERC (Multi Year Transmission, Distribution and Retail Supply Tariff) Regulations, 2023. However, Mangalore SEZ Ltd had considered 95% for HT consumer which is beyond imagination. Considering past practices and the draft regulation, the amount of wheeling charges should be 42 paisa as per Table below:
<table>
<tr><th>S No</th><th>Particulars</th><th>Amount</th></tr>
<tr><td>1</td><td>Net ARR for Distribution Business (in Rs. Crore)</td><td>10.53</td></tr>
<tr><td>2</td><td>Sales in MU</td><td>75.16</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>No.</th><th>Objections</th><th>Replies by MSEZL</th></tr>
<tr><td></td><td><table><tr><td>3</td><td>Wheeling Charges in Paisa</td><td>140</td></tr><tr><td>4</td><td>30% for HT consumer in Paisa</td><td>42</td></tr></table></td><td rowspan="3">distribution area of the ESCOMs the percentage of HT and LT networks can vary. This point is accentuated in Hon'ble Commission in draft MYT regulations on MYT for licenses under para 56 (b) wherein "The allocation of the ARR pertaining to distribution wires business may be allocated to HT and LT networks for determining the wheeling charges in the ratio of 30:70, as per the following formula" (emphasis added). Thus, discretion is available to a distribution licensee to allocate the cost to HT and LT networks based on actual network.</td></tr>
<tr><td>10</td><td>However, we do not agree the proposal of KERC and field our objection in October 2023 for this proposal. We requested KERC to consider the Fixed Charges less the Contract Demand Charges as under:<table><tr><td>S No</td><td>Particulars</td><td>Amount</td></tr><tr><td>1</td><td>Net ARR for Distribution Business (in Rs. Crore)</td><td>10.53</td></tr><tr><td>2</td><td>Less Demand Charges (in Rs. In Crore)</td><td>9.37</td></tr><tr><td>3</td><td>Unrecovered Distribution Charges (in Rs. Crore)</td><td>1.16</td></tr><tr><td>4</td><td>Sales in MU</td><td>75.16</td></tr><tr><td>5</td><td>Wheeling Charges in Paisa</td><td>15</td></tr></table></td></tr>
<tr><td>11</td><td>We wish to highlight the excess recovery of charges by Mangalore SEZ Ltd by using different approaches to recover revenue. Following would be the scenario, if all the consumer avail open access:<table><tr><th>S No</th><th>Particulars</th><th>Amount in Rs. Cr</th></tr><tr><td>1</td><td>Contract Demand Charges</td><td>9.37</td></tr><tr><td>2</td><td>Wheeling Charges</td><td>10.53</td></tr><tr><td>3</td><td>Additional Surcharges</td><td>4.80</td></tr><tr><td>4</td><td>Total Recovery (Without energy charges)</td><td>25.06</td></tr><tr><td>5</td><td>Total Fixed Charged incurred as per MSEZL*</td><td>14.17</td></tr><tr><td>6</td><td>Excess Recovery</td><td>10.89</td></tr></table></td></tr>
</table>

No.	Objections	Replies by MSEZL
	*The total fixed charges if there is no retail supply of power would be much less as the cost of interest of Working Capital and other fixed cost would not be incurred at all. The above computation clearly shows that the excess recovery of Rs. 10.89 Crores. In fact, the total recovery should be equal to the total fixed charges incurred. If such recovery is allowed, the objective of Electricity Act and Open Access would be completely defeated.	
	Commission's Views: The Commission notes the objection and reply provided MSEZL.	
12	Cardolite has filed a writ petition before the Hon'ble High Court on the order of the Hon'ble Commission raising various additional grounds based on the review petition before the Hon'ble Commission. As the matter may be sub-judice, we presently, would not like to raise similar objections at the point of time. However, we would like to reserve the right to take up the objections, if the Hon'ble High Court passes a favorable judgement to us before the date of hearing. In case, the favorable judgement is passed after the date of hearing, we reserve the right to file a review petition before the Hon'ble Commission.	The observation is not related to the tariff petition for FY25 and hence, no comments are offered.
	Commission's Views: The Commission notes the objection.	
13	In view of the forgoing deliberations, we request that the cost of power from Mangalore SEZ Ltd should not be higher than the MESCOM's cost of power for the same industrial consumers. Special Economic Zones are developed to attract foreign investment in India and promote exports. Hence, it is that the cost of power is competitive in international markets.	The objector is requested to note that the energy charges for FY24 at Rs.6.90/unit is much lower than the tariff rate paid by similarly paced consumers in the same area of operation.
	Commission's Views: The Commission notes the objection and reply provided MSEZL.	

2. List of the persons, who made oral submissions during the Public Hearing, held on 12.02.2024:

SL. No.	Names & Addresses of Objectors
1	Sri. Abdul Rahman Musba, Head(Finance), M/s Cardolite Specialty Chemicals India LLP, MSEZ, Bajpe, Mangaluru-574142

The above objector has referred to the objections raised in writing and accordingly MSEZL also referred to their replies provided to these objections of the objector.

Commission's Views: The Commission taken note of the objections and corresponding replies provided by the MSEZL to it.

CHAPTER – 1

ANNUAL PERFORMANCE REVIEW FOR FY23

1.1 MSEZL's Application for APR for FY23

MSEZL has filed its application for Annual Performance Review (APR) for FY23 and determination of revised ARR and retail supply tariff for FY25 on 29th November, 2023. MSEZL has sought Annual Performance Review for FY23 based on the Audited Accounts for FY23.

The Commission, in its Tariff Order dated 4th April, 2022, had approved net ARR of Rs.54.18 Crores and also revised the Retail Supply Tariff for FY23.

The Commission, vide its letter dated 20th December, 2023 had communicated its preliminary observations on the Petition filed. MSEZL has submitted its replies to the preliminary observations of the Commission on 26th December, 2023.

The Commission has taken up the Annual Performance Review of MSEZL for FY23, as per the provisions of the MYT Regulations, based on the audited accounts and the same is discussed in this Chapter.

MSEZL's Submission:

MSEZL has submitted its proposals for revision of ARR as per APR for FY23 based on the Audited Accounts as follows:

TABLE – 1.1

ARR for FY23 – MSEZL's Submission

Amount in Rs. Crores

SL. No.	PARTICULARS	As approved in TO 04.04.2022	As Filed
1	Energy at Interface in MU	66.410	98.68
2	Distribution loss (%)	0.56%	0.40%
3	Sales in MU	66.040	98.29
4	**Revenue from sale of power**	54.180	76.32

	Total Expenditure:		
5	Power Purchase Cost	41.180	60.510
6	Employees costs		0.510
7	Repairs & maintenance	1.600	0.820
8	A&G expenses		0.440
9	**Total O&M expenses**	**1.600**	**1.770**
10	Depreciation	2.830	2.850
11	Interest on Loans	2.856	3.810
12	Interest on Working capital	0.950	1.40
13	Interest on consumer deposits	0.270	0.270
14	Less: Expenses capitalized	0.000	0.000
15	Other Debits (including Bad Debts)	0.000	0.040
16	Return on Equity	3.125	3.13
17	Taxes / Deferred Tax	0.000	0.000
18	Regulatory Assets as per T.O dated 04.11.2020	0.000	0.000
19	Less: Other income	-0.190	-0.350
20	**Carry forward of Surplus/ (-) Deficit as per APR of FY21**	-1.560	-1.560
21	**Net ARR**	**54.180**	**75.000**
22	**Net Surplus/Deficit (-) in Revenue for FY23**	**0.00**	**1.330**

Considering the revenue from sale of power of Rs.76.32 Crores against the net ARR of Rs.75.00 Crores, MSEZL has reported a revenue surplus of Rs.1.33 Crores for FY23.

MSEZL, in its Petition, has proposed that the surplus of Rs.1.33 Crore for FY23, is carried forward to the ARR of FY25. MSEZL has requested that in case, the Commission approves any increase in the power purchase cost to be paid to the MESCOM, upon truing up for APR for FY23, then the power purchase cost should be fully recovered from the consumers through ARR of FY25.

The item-wise review of revenue and expenditure and the decisions of the Commission thereon for FY23 are as discussed in the following paragraphs:

1.2 Sales for FY23:

The Commission in its Tariff Order 2022, had approved sales of 66.04 MU for FY-23. The actual sales as per current filing [D-2 Format] is 98.29 MU, indicating an increase in sales to the extent of 32.25 MU.

The Commission in its preliminary observations had directed MSEZL to analyze the reasons for increase in sales in FY23 with respect to the approved figures.

The MSEZL in its replies has attributed the increase in energy sales to the following:

(i) Considerable increase in sales to OMPL, as the consumer on trail basis shifted the critical load from the captive power plant to grid supply, to reduce the operational costs; and

(ii) Increase in energy consumption by fish based consumers due to availability of fish and conducive market conditions.

The Commission has noted the replies furnished by MSEZL regarding the increase in sales during FY23.

In view of the above, the Commission decides to approve the actual sales of 98.29 MU for the year FY23.

1.2.1 Distribution Losses for FY23:

MSEZL, in its Tariff Petition, has submitted that, the actual distribution loss is 0.40% as against an approved distribution loss of 0.56% for FY23.

The Commission, in its Tariff Order dated 4th April, 2022, had fixed the distribution loss at 0.56% as proposed by the MSEZL for FY23. The Commission notes that, MSEZL has achieved a reduction in distribution losses by 0.16% by achieving distribution losses at 0.40% for FY23. Thus, the Commission decides to approve the distribution loss percentage of 0.40% achieved by MSEZL for FY23. The Commission has decided not to allow any incentive on the actual achievement of loss targets for FY23, as the Commission has not fixed any upper or lower limits while fixing the distribution loss targets in the previous years.

1.2.2 Power Purchase for FY23:

MSEZL, in its APR application has submitted that, it has purchased total energy of 98.68 MU at the IF points from MESCOM and under Open Access (STOA & IEX) at a cost of Rs.60.51 Crores as against the approved power purchase quantum of 66.41 MU at a cost of Rs.41.18 Crores for FY23. MSEZL has submitted that they have sourced 67.37 MU from MESCOM and 31.31 MU under Open Access (Short-term and IEX). MSEZL has informed that they have paid to MESCOM Rs.45.48 Crores at the rate of Rs.6.75 per unit by including the FAC/FPPCA paid during FY23 (excluding Rs.4.54 Crores paid to MESCOM towards revised power purchase costs of FY21). MSEZL has requested the Commission that if the MESCOM's power purchase cost for FY23 is revised upwards over and above the amount already allowed, the same shall be fully allowed to be carried forward into the revised ARR for FY25.

MSEZL has procured Solar and Non-solar energy of 31.31 MU from IEX for Rs.14.91 Crores and incurred expenditure of Rs.0.12 Crores towards purchase of RPO certificate for the FY21 as per the directions of the Commission dated 04.04.2022 for FY23.

Thus the total power purchase cost as for FY23 claimed by the MSEZL, as per filing is Rs.60.51 Crores. This amount also includes the cost of power purchase made under Open Access from STOA and IEX. As per Audited Accounts, the total power purchase cost is Rs.65.04 Crores which also includes the difference in power purchase cost of Rs.4.54 Crores paid to MESCOM, as per the Tariff Order dated 04.04.2022 for FY21.

The Commission notes from the audited accounts of MSEZL that the actual quantum of power purchased from the MESCOM at IF points is 67.37 MU at the rate of Rs.6.75 per unit, which includes the FAC paid during FY23 as per the Commission's Order issued thereon. Thus, the total power purchase cost from MESCOM works out to Rs.45.48 Crores for FY23. The Commission also notes that, MSEZL has excluded Rs.4.54 Crores being the differential amount of power purchase cost paid to MESCOM for FY21 in accordance with the Commission's

Order dated 04.04.2022. MSEZL has also purchased power to an extent of 31.31 MU under Open Access (IEX) at a cost of Rs.14.91 Crores for FY23. Further, MSEZL has incurred an amount of Rs.0.12 Crores towards Purchase of Solar and non-Solar RE Certificate for FY21 as per Tariff Order dated 04.04.2022.

The Commission, in its Tariff Order dated 04.04.2022, while computing the power purchase cost for FY23, 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 Rs.0.25 per unit towards grid support charges, trading margins and energy handling charges to determine the per unit power purchase cost at the interface point (and transmission loss). The Commission, by adopting the same approach, has computed the power purchase cost for FY23, as per the following Table:

TABLE – 1.2

Power Purchase Cost-FY23

Particulars	Energy in MU	Total Cost-Rs. Crores	Per unit Cost in Rs.
State PP cost excluding Hydro	58730.81	42530.46	7.2416
Add: Trading Margin, Energy handling and Grid support charges of ESCOMs and Transmission loss			0.25
Power Purchase cost at Interface Point from MESCOM	**7.4916**	**67.367812**	**50.467**
Purchase from Open Access (IEX) and purchase of Solar and Non Solar certificate for Fy21 purchases as per T.O dated 04.04.2022.	**4.762**	**31.31**	**14.91**
Total energy requirement at generation bus and total power purchase costs for FY23			**65.4971**

The total power purchase (excluding Hydro power) of the State of 58730.81 MU works out to Rs.42530.46 Crores. Thus, the average per unit cost of power purchase (excluding Hydro power) of the State works out to Rs.7.242 per unit. Accordingly, the per unit cost of power purchase for MSEZL at the interface points works out to Rs.7.4916 per unit considering additional Re.0.25 per unit towards grid support charges, trading margins and energy handling charges.

Thus, the total power purchase cost of MSEZL works out to Rs.50.467 Crores, as against Rs.45.48 Crores (including FAC/FPPCA) as paid by MSEZL to MESCOM by considering the power purchase of 67.37 MU from MESCOM for FY23.

Therefore, the MSEZL is required to pay the difference in the power purchase cost of Rs.4.987 Crores to MESCOM for FY23. MSEZL has also purchased 31.31 MU at Rs.14.91 Crores under Open Access during FY23. Further, MSEZL has incurred Rs. 0.12 Crores towards Purchase of Solar and non-solar RE certificate as per the directions in the tariff Order dated 04.04.2022 during FY23. Based on the above computation, the total power purchase cost for the purchase of 98.68 MU by MSEZL from MESCOM and IEX under OA, works out to Rs.65.497 Crores for FY23.

Thus, the Commission decides to approve the power purchase quantum of 98.68 MU at IF points, at a cost of Rs.65.497 Crores as per APR for FY23.

1.2.3 RPO Compliance:

MSEZL was directed to furnish the status of RPO compliance for FY23. It is observed that MSEZL has procured power to the extent of 67.37 MU from MESCOM and 31.31 MU under open access. As per the extant Regulations, deemed Licensee(s), procuring bulk power, partly or wholly, from the ESCOM(s), shall be deemed to have complied with the RPO to the extent of such procurement from the ESCOM(s) if, such ESCOM(s) has/have complied with the RPO. Thus, to the extent of power procured from MESCOM, MSEZ is deemed to have met RPO to that extent, if MESCOM has complied with RPO. However, for the power procured from sources other than ESCOMs, the RPO has to be separately complied with. Thus, for the quantum of 31.31 MU purchased under open access, MSEZL has to comply with RPO either by procuring Solar / Non-solar RE Energy or by procuring the relevant REC**. MSEZL was directed to clarify in the matter and furnish necessary documents for having complied with the RPO.**

MSEZL in their replies have submitted that at the regional periphery the power procured from IEX is 33372.46 MWh which includes green energy of 7577.89 MWh. Further, it is submitted that the green energy procured at the delivery point is 7088.38 MWh and the total power procured at delivery point from OA source is

31310 MWh after accounting for the intrastate losses. Thus, the RPO of 25%, to be complied on the non-renewable energy procured from open access at the periphery of 25794.57 MWh works out to 6449 MWh (after rounding of). Since, MSEZL has procured 7088.38 MWh of green energy at the delivery point, MSEZL has complied with the RPO for FY23 for the power procured from open access source. Further, as MESCOM has complied with RPO for FY23, MSEZL as per the extant Regulations has complied with RPO for FY23 to the extent of power procured from MESCOM also.

In view of the above, the Commission decides that MSEZL has complied with RPO for FY23.

1.2.4 Operation and Maintenance Expenses:

MSEZL in its Petition, has claimed Rs.1.77 Crores as against Rs.1.60 Crores approved by the Commission, towards O&M charges for FY23. MSEZ has claimed Rs.0.82 Crores, Rs.0.51 Crores and Rs.0.44 Crores towards R&M expenses, employee cost and A&G expenses for FY23, respectively.

MSEZL in its application, has submitted that it has computed the normative O&M expenses of Rs.1.77 Crores for FY23, considering the WII of 6.1611% and base O&M expense of Rs.1.68 Crores for FY22.

MSEZL has submitted that the allowable normative O&M expenses as per MYT norms is Rs.1.7835 Crores. The actual O&M expenses incurred by MSEZL is Rs.1.77 Crores for FY23. MSEZL in its filing has restricted the claim of O&M expenditure to the actual O&M expenses of Rs.1.77 Crores.

The normative O&M Expenses claimed by MSEZL is as under:

TABLE – 1.3

O&M expenses for FY23 – MSEZL's Submission

Particulars	FY23
Inflation index (%)	6.1644%
Base year O&M cost – Rs. in Crore (FY22)	1.68
Normative O&M expenses – Rs. In Crore	**1.7835**
Actual O&M expenses	**1.77**

Commission's Analysis and Decisions:

The Commission notes that, as per the bifurcated audited accounts of the licensed activity, the MSEZL has incurred O&M expenses of Rs.1.77 Crores for FY23 as against the approved expenses of Rs.1.60 Crores.

The Commission, in accordance with the provisions of MYT Regulations and the methodology adopted while approving the O&M expenses for the earlier control period, proceeds with the determination of 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 FY23 is computed as follows:

TABLE – 1.4
Computation of Inflation Rate for FY23

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)*(LnRt)]
2011	98.2	66.5	72.84				
2012	105.7	72.7	79.30	1.09	0.08	1	0.08
2013	111.1	80.6	86.70	1.19	0.17	2	0.35
2014	114.8	85.7	91.52	1.26	0.23	3	0.68
2015	110.3	90.8	94.70	1.30	0.26	4	1.05
2016	110.3	95.3	98.30	1.35	0.30	5	1.50
2017	114.1	97.6	100.90	1.39	0.33	6	1.96
2018	118.9	102.4	105.70	1.45	0.37	7	2.61
2019	121.2	110.2	112.40	1.54	0.43	8	3.47
2020	121.8	116.3	117.40	1.61	0.48	9	4.30
2021	135.0	122.0	124.60	1.71	0.54	10	5.37
2022	151.3	129.2	133.62	1.83	0.61	11	6.67
A= Sum of the product column							28.04
B= 6 Times of A							168.22
C= (n-1) *n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.06
g (Exponential factor) = Exponential (D)-1							0.056973
e=Annual Escalation Rate (%) =g*100							**5.6973**
As per CERC Notification No.Eco T I / 2022-CERC dated 30.03.2022 with weightage of 80% on CPI and 20% on WPI							

The Commission has considered the following aspects for determining the normative O & M expenses for FY23:

a) The actual O & M expenses of the base year as per the audited accounts for FY22.
b) 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 FY23.
c) The weighted inflation index (WII) at 5.6973% as computed above.
d) Efficiency factor at 0.5% as considered in the earlier control periods.

Thus, the normative allowable O&M expenses for FY23 work out to:

TABLE - 1.5
Normative O&M Expenses for FY23

Particulars	FY23
No. of Installations	26
Consumer growth index based on 3-year CAGR of Consumers in %.	0.00%
Inflation index in %	5.6973%
Base Year O&M Cost(FY19 as per actuals)	1.68
O&M Index= 0&M (t-1) *(1+WII-X)	1.767
Allowable O & M Expenses for FY23	**1.767**

Thus, the Commission decides to approve the O&M expenses of Rs.1.767 Crores in the APR for FY23, as requested by MSEZL.

1.2.5 Depreciation:

MSEZL, in its application as per the bifurcated audited accounts has claimed an amount of Rs.2.85 Crores towards depreciation on the fixed assets and requested the Commission to approve the same for FY23.

Commission's Analysis and Decisions:

The Commission, while computing the depreciation for FY23, has considered 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 licensed activity and the data furnished as per Formats D-8 and D-15.

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 FY23 as follows:

TABLE – 1.6
Allowable Depreciation for FY23

Amount in Rs. Crores

Particulars	Opening Balance of GFA as on 01.04.2021	Closing Balance of GFA as on 31.03.2022	Depreciation
Building	2.84	2.99	0.09
Civil Works	0.87	0.87	0.03
Plant & Machinery	21.30	21.30	1.0061
Lines, Cable network	36.00	36.31	1.7250
Furniture	0.05	0.05	0.00
Office Equipment	0.02	0.02	0.00
Lease hold land	6.17	6.17	0.00
Total	**67.25**	**67.71**	**2.8511**

The allowable depreciation based on the audited bifurcated account is Rs.2.8511 Crores for FY23.

Thus, the Commission decides to allow depreciation of Rs.2.8511 Crores for FY23.

1.2.6 Interest on Capital loan:

MSEZL in its Petition, has claimed Rs.1.63 Crores at the weighted average interest rate of 7.8427% at an average capital loan balance of Rs. 20.805 Crores as against Rs.1.619 Crores approved by the Commission, in its Tariff Order dated 4th April, 2022, towards Interest on capital loan for FY23. MSEZL has claimed an amount of Rs.2.18 Crores towards normative interest on equity in excess of 30% of Gross Fixed Assets as per the provisions of MYT Regulations.

Commission's Analysis and Decisions:

The Commission notes that MSEZ has claimed Rs.1.62 Crores towards interest on capital loan and Rs.2.18 Crores towards interest on equity in excess of 30% of GFA for FY23.

The Commission, while computing the interest on capital loans has considered the opening balance 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 licensed activity for FY23.

The Commission has worked out the allowable interest on the average capital loan for FY23, 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 - 1.7
Allowable Interest on Capital Loan for FY23

Amount in Rs. Crores

Particulars	FY23
Long term secured & unsecured loans	21.52
Add: new Loans	0.00
Less: Repayments	1.42
Total loan at the end of the year	20.10
Average Loan	20.81
Interest Rate allowed in %	7.8427
Interest Allowed	**1.63**

In addition to the above, the Commission, as per the provisions of MYT Regulations, has allowed the normative interest for the excess equity over 30% of GFA of Rs.0.85 Crores for FY23, as detailed below:

TABLE - 1.8

Allowable Normative Interest on excess equity for FY23

Amount in Rs. Crores

Sl. No.	Particulars	FY23
1	Opening balance of GFA	67.25
2	30% of GFA(Eligible for allowance of RoE	20.18
3	70% of GFA(Eligible for allowance of Loan component	47.08
4	Opening balance of Equity	47.94
5	Equity in excess of 30% of GFA (4-2)	27.77
6	Weighted average rate of Interest	7.8427%
7	Normative allowable interest on excess equity	2.18
8	**Normative interest on excess equity as claimed by MSEZ**	**0.85**
9	**Total Allowable interest on excess equity**	**0.85**

Thus, the Commission decides to approve the interest on capital loan of Rs.1.63 Crores and Rs.0.85 Crores towards normative interest on excess equity over 30% of GFA (Total interest of Rs.2.48 Crores) for FY23.

1.2.7 Interest on Working Capital:

MSEZL in its application has claimed Rs.1.40 Crores as against Rs.0.95 Crores as approved by the Commission towards normative interest on working capital at 10.36% interest rate for its licensed activity as per the provisions of MYT norms for FY23.

Commission's Analysis and Decisions:

The Commission notes that as per audited accounts, MSEZL has not incurred any amount towards interest on working capital. The Commission, in accordance with the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006 and amendments thereto, has computed the allowable interest on working capital for FY23, as under:

TABLE – 1.9
Allowable Interest on Working Capital for FY23

Amount in Rs. Crores

Particulars	FY 23
One-twelfth of the amount of O&M Expenses	0.1473
Opening GFA as per Audited Accts	**67.71**
Stores, materials and supplies 1% of Opening balance of GFA	0.68
One-sixth of the Revenue	12.72
Total Working Capital	**13.54**
Rate of Interest (7.00% + 2.50%)	9.50
Normative Interest on Working Capital	1.29
Actual Interest on Working capital	**0.00**
Allowable interest on Working Capital as per MYT Norms (50% of normative IWC)	**0.643**

Thus, the Commission decides to allow Rs.0.643 Crores towards interest on working capital loan for FY23.

1.2.8 Interest on Consumers' Security Deposits:

MSEZL in its Petition, has claimed the actual interest security deposit of Rs.0.27 Crores, at the bank rate of 4.25% for FY23.

As per the provisions of KERC (Interest on Consumers' Security Deposit) Regulations, 2005, the interest on consumer security deposit shall be allowed on consumer security deposits amount as per the bank rate prevailing as on the 1st of April of the relevant year. The Commission notes the opening and closing balance of consumers' security deposits and interest thereon as per the bifurcated audited accounts of MSEZL for FY23. Considering the bank rate of 4.25% as on 1st April, 2022, the allowable interest on consumers' security deposits is as follows:

TABLE – 1.10
Allowable Interest on Consumers' Security Deposits for FY23

Amount in Rs. Crores

Particulars	FY23
Opening Balance of Consumers' Security Deposits Addition of deposits	6.274
Closing Balance of Consumers' Security Deposits	6.51
Allowable Bank Rate of Interest in %	4.25%
Approved Interest on Consumers' Security Deposits	0.27

Thus, the Commission decides to approve interest on consumers' security deposits of Rs.0.27 Crores for FY23.

The abstract of approved interest and finance charges for FY23 are as follows:

TABLE – 1.11
Allowable Interest and Finance Charges

Amount in Rs. Crores

Particulars	FY23
Interest on Loan capital	2.48
Interest on working capital	0.64
Interest on consumers security deposits;	0.27
Total interest and finance charges	**3.39**

1.2.9 Capitalization of Interest and other expenses:

MSEZL, has not claimed any amount towards capitalization of interest and finance charges for FY23. Accordingly, the Commission has not considered any amount towards capitalization of Interest and other expenses for computation of APR for FY23.

1.2.10 Other Debits:

MSEZL, in its application has claimed Rs.0.040 Crores towards other debits towards loss of time value of money on trade receivables as per AS accounting policy for FY23 which is not allowable as per the provisions of MYT Regulations.

Thus, the Commission decides not to allow any amount towards Other debits for FY23.

1.2.11 Return on Equity:

MSEZL in its Petition, has claimed Return on Equity of Rs.3.13 Crores for FY23 as detailed below:

TABLE – 1.12

Return on Equity for FY23– MSEZL's Submission

Particulars	Amount Rs. in Crs.
Gross equity share capital as on 01.04.2021	35.55
Opening balance of accumulated surplus under Reserves & Surplus	12.39
Opening balance of Net Equity	47.04
Normative equity at 30% of the opening GFA	20.18
RoE @ 15.5%	**3.13**

Thus, the Commission in accordance with the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereto, has computed the return on equity at 15.5% by limiting the equity at 30% of the opening GFA in allowing the ROE for FY23 as under:

TABLE – 1.13
Allowable Return on Equity

Amount in Rs. Crores

Particulars	FY23
Opening balance of Share Capital	35.55
Opening balance of accumulated deficit under Reserves and Surplus	12.39
Opening balance of Net Equity	47.94
Opening GFA	67.25
Normative Equity at 30% of the opening GFA	20.18
Return on equity at 15.50%	3.127

Thus, the Commission decides to allow Return on Equity of Rs.3.127 Crores for FY23.

1.2.12 Income Tax:

MSEZL in its filing, has not claimed any amount towards current income tax for FY23. Hence, the Commission has not allowed any income tax for FY23

1.2.13 Other Income:

MSEZL, in its application, has claimed an amount of Rs.0.35 Crore as other income as against Rs.0.19 Crore approved by the Commission vide its Tariff Order dated 4th April 2022 for FY23. MSEZL has submitted that it has received Rs.0.20 Crores towards interest from banks/fixed deposits and Rs.0.14 Crores towards additional surcharge for FY23.

Thus, the Commission, as per bifurcated audited accounts of MSEZL, decides to allow an amount of Rs.0.35 Crores as other income for FY23.

1.2.14 Revenue:

MSEZL in its filing, has submitted that it has earned revenue of Rs.76.32 Crores from the sale of 98.68 MU power.

The Commission notes that, as per audited accounts, MSEZL has earned Rs.76.32 Crores as revenue from sale of power and FPPCA for FY23. Accordingly, the Commission has considered the revenue of Rs.76.32 Crores earned by MSEZL as per the bifurcated audited accounts in approval of APR for FY23.

1.3 Abstract of Approved Revised ARR for FY23:

As per the above item-wise decisions of the Commission, the consolidated approved revised ARR for FY23 is as follows:

TABLE – 1.14
Abstract of Approved revised ARR for FY23

Amount in Rs. Crores

Particulars	As Approved in T.O dated 4th April, 2022	As per filing	As per APR
Power Purchase (MU)			
Energy @ IF Point in MU	66.410	98.68	98.68
Sales (MU)	66.04	98.29	98.29
Distribution Loss in %	0.56	0.40	0.39
Revenue:			
Revenue from Sale of Power	**54.18**	**76.32**	**76.32**
Expenditure:			
Power Purchase Cost	41.18	60.51	65.497
Employee Expenses	1.60	0.51	1.767
R&M Expenses		0.82	
A&G Expenses		0.44	
Depreciation	2.83	2.85	2.851
Interest on Loan Capital	2.856	3.81	2.483
Interest on Working Capital	0.95	1.40	0.643
Interest on Consumer security Deposits	0.27	0.27	0.270
Less: Expenses capitalized	0.00	0.00	0.00
Other Debits/ Extraordinary Items	0.00	0.04	0.00
Net Prior Period Credit	0.00	0.00	0.00
RoE	3.125	3.13	3.127
Income Taxes	0.00	0.00	0.00
Regulatory Assets as per T.O dated 04.11.2020 / carrying cost	0.00	0.00	0.00
Less: Other Income	-0.19	-0.35	-0.35
Carry forward of Surplus/ (-) Deficit as per APR of FY21	-1.56	-1.56	0.00
Total revised ARR for FY23	**54.18**	**75.00**	**76.289**
Net Gap	0.00	1.33	0.031

1.4 Gap in Revenue for FY23:

As against the approved ARR of Rs.54.18 Crores, the Commission after the Annual Performance Review of MSEZL for FY23 decides to allow the total ARR of Rs.76.289 Crores for FY23. Considering the revenue from sale of power of Rs.76.32 Crores, the surplus in revenue is determined at Rs.0.031 Crores for FY23.

The Commission decides to consider the surplus of Rs.0.031 Crores as per APR for FY23, to be carried forward to the revised ARR of FY25.

CHAPTER – 2

ANNUAL REVENUE REQUIREMENT FOR FY25

Mangalore SEZ Limited's (MSEZL) Application:

2.1 Annual Revenue Requirement (ARR) for FY25:

MSEZL, in its application dated 27th November 2023, has sought approval of the Commission for the revised ARR and determination of Retail Supply Tariff for FY25. The summary of the proposed revised ARR for FY25 is as follows:

TABLE – 2.1
ARR for FY25 – MSEZL Proposal

Amount in Rs. Crores

Particulars	As approved in T.O. 04.04.2022	As filed on 27.11.2023
Energy @ IF Point (MU)	71.136	72.620
Sales (MU)	70.78	75.16
Distribution Loss in %	0.50	0.61
Revenue From Sale of Power	**56.50**	**61.06**
Expenditure:		
Power Purchase Cost	44.54	49.36
Employee Expenses	1.87	0.54
R&M Expenses		0.87
A&G Expenses		0.46
Depreciation	2.83	2.88
Interest on Capital Loan	2.641	4.33
Interest on Working Capital	0.96	1.22
Interest on Consumer Deposit	0.27	0.68
Other Debits/Ex. Items	0.00	0.04
RoE	3.125	3.82
Current Taxes/ Deferred Taxes	0.00	0.00
Less : Other Income	-0.19	-0.67
Total ARR	**56.05**	**63.54**
APR Surplus/Deficit(-) of FY23 carried forward to FY25	0.00	1.33
Net ARR	**56.05**	**62.21**
NET Surplus/Deficit (-) for FY24	**0.00**	**-1.15**

MSEZL, in its filing, has projected an ARR of Rs.62.21 Crores by considering the power purchase cost at Rs.49.36 Crores for FY25. MSEZL by considering the revenue of Rs.61.06 Crores from sale of power has projected a revenue deficit of Rs.1.15 Crores by including the net surplus of Rs.1.33 Crores as per APR for FY23 for FY25.

Treatment of Revenue gap for FY23:

MSEZL in its filing, has projected a revenue surplus of Rs.1.33 Crores as per APR for FY23. MSEZL has requested the Commission that, for any increase in the approved per unit power purchase cost for FY23, the difference in power purchase cost need be passed on to the consumers through tariff increase for FY25.

The Commission has computed the revenue gap for FY23 in accordance with the MYT Regulations, as discussed in the previous chapter and has decided to carry forward the revenue surplus of Rs.0.031 Crores as per APR for FY23 to the ARR of FY25. The power purchase quantum and associated costs are dealt in the subsequent part of this Order.

2.2 Determination of ARR for FY25:

The analysis of the expenses and decisions of the Commission on each of the expenditure proposed by MSEZL for FY25 are discussed below:

2.3 Sales for FY24 and FY25

1. MSEZL has revised the sales for FY24 considering the actuals upto October, 2023 and estimating the sales for the remaining period. MSEZL has revised the sales for FY24 to 70.52 MU, as against approved sales of 86.97 MU in the Tariff Order 2023. MSEZL has attributed the reduction in sales to:

    a. Decrease in sales by fish based units due to low availability of fish in the sea.

b. Loss of production due fire accident in Catasynth Specialty Chemicals

c. Decrease in sales by MRPL due to water shortage which affected the production and

d. More drawl from open access by some of the consumers.

While the Commission noted the above reasons for reduction in sales in FY24, MSEZL was directed to furnish the consumer wise actual data of sales upto November, 2023.

MSEZL has furnished the consumer-wise data upto November, 2023.

2. MSEZL has estimated sales of 75.16MU for FY25, indicating a growth rate 6.59% over FY24 estimate and has submitted that the situation as in FY24, in case of fish based industries, MRPL, Catasynth and open access drawl, would continue in FY25 also.

3. The observations of the Commission on the sales estimate for FY25 and the replies furnished by MSEZL are as follows:

a. The sales for OMPL and ISPRL could be retained at FY23 level.

Reply:

OMPL in FY 23 experienced grid disruptions resulting in two-months' shut-down and has shifted to captive power plant in FY24. Further, due to drought conditions in FY24 the production activities was shut down due to non-availability of water. The industry expects drought situation to continue in FY25 also and hence energy requirements would be lower.

b. The sales for fish industries namely Authentic Ocean Treasure and Shree Ulka could be retained at FY24 level.

Reply:

Both the above consumers have opted to go for open access in FY25. Accordingly, the energy sales for FY25 is estimated.

c. In case of Catasynth the consumption for FY25 is considered as 4MU when compared to 0.23 MU estimated for FY24.
MSEZL has not furnished the reply.

4. MSEZL shall also furnish details of energy requirement request made by consumers for FY25.
MSEZL has not furnished the reply.

5. Energy at IF point:

The energy at IF point as filed by MSEZL and as per MESCOM is as follows:

Year	MESCOM	MSEZL
FY23	67.35	98.68
FY24	67.35	70.91
FY25	67.35	75.62

MSEZL shall reconcile the energy data at IF with MESCOM and furnish the reasons for difference.

MSEZL has not furnished the reply.
The Commission directs MSEZL to reconcile the above data with MESCOM

6. **Estimate of energy sales by the Commission:**

The Commission has validated the sales for the base year FY24 as furnished by MSEZL, considering the consumer-wise data furnished by MSEZL upto November, 2023. The Commission has retained the sales for FY24 as estimated by MSEZL.

The Commission has compared the CAGR for the period FY21 to FY23 and the growth rate of FY23 over FY22 to estimate the sales for FY25. Considering the above growth rates the Commission has estimated the consumer-wise sales as indicated below:

Energy Sales-MU		
1	OMPL	54.637
2	ISPRL	4.473
3	Cardolite	2.358
4	Authentic Ocean Treasure	4.648
5	Shree ULKA LLP	4.220
6	Yashaswi Fish meal & Oil company	5.519
7	Gadre Marine Export	5.484
8	Syngene	1.978
9	Syngene ETP	0.576
10	Trident Infra	0.449
11	Catasynth Speciality chemical Pvt Ltd	0.265
12	Canteen	0.017
13	Axis Bank ATM	0.007
14	JBF Str light	0.008
15	GMPL Street light	0.088
16	MSEZL Utilities	3.171
	Total	**87.898**

The Commission keeping in view the estimates made by MSEZL, decides to approve 81.53 MU [Average of 87.90 MU (after rounding of) estimated by KERC & 75.16 MU estimated by MSEZL].

2.4 Distribution Losses:

MSEZL in its filing, has projected the distribution loss of 0.60% as against the approved distribution loss of 0.50% as per tariff order dated 04.04.2023 for FY25. Considering the load growth, number of consumers, estimated sales of 75.16MU for FY25 and previous years' actual distribution loss percentages, MSEZL in its application, has projected the distribution loss at 0.60%.

The Commission notes that the power to all the consumers of MSEZL is catered from 2X20 MVA, 110/33/11KV Substation (GSS-03) which is located almost at the load Centre of MSEZL, thereby the voltage drops and power loss occurring in the distribution system is at the bare minimum.

MSEZL has projected higher distribution losses of 0.60% as against 0.50% as approved by the Commission for FY25, in its Tariff Order dated 04.04.2022. The Commission notes that the actual distribution loss incurred by MSEZL during FY23 is 0.40% as against approved losses of 0.56%, resulting in decrease of 0.16% of distribution losses as compared to the approved figures. Considering the actual distribution loss of 0.40% achieved by MSEZL in FY23, the revised proposed distribution loss of 0.60% MSEZL for FY25 is not justifiable. Thus, the Commission by considering the actual distribution loss of 0.40% achieved in FY23 and approved the sales of 81.53 MU with present existing network system in MSEZ area of operation decides to **approve the revised distribution loss of 0.31% for FY25**.

2.5 Capital Investment Plan:

MSEZL in its filing, has sought the revised capital expenditure of Rs.0.30 Crores as against Rs. 0.75 Crores approved by the Commission in its MYT Order dated 04.04.2022, for FY25.

The Commission takes note submission made by MSEZL in its application for the proposed revised capex of Rs.30 Crores for FY25.

Thus, the Commission decides to consider the revised capex of Rs.0.30 Crores as requested by MSEZL for FY25.

2.6 Power Purchase cost:

MSEZL's Submission:

MSEZL in its filing, has proposed the energy requirement at IF points of 75.62 MU, considering revised sales estimates of 75.16 MU for FY25. MSEZL has computed the power purchase cost at Rs. 7.2457 per unit as approved by the Commission on 45.37 MU energy to be procured from MESCOM and 30.25 MU under open access at Rs. 5.45 per unit for FY25 as under:

TABLE - 2.2

Power Procurement Plan as submitted by MSEZL

Sl. No.	Source of power	FY 25 (MUs)
1	MESCOM and Others	45.37
2	Open Access	30.37
3	**Total**	**75.62**

MSEZ has informed that, the FPPCA to be paid to MESCOM as per the Orders being passed by MESCOM and FPPCS on the open access purchase a pass-through cost is not factored while computing the total power purchase cost. MSEZ has submitted that, in case the Commission approves a power purchase rate higher than Rs.7.2457 per unit from MESCOM then the increase in the power purchase costs needs to be compensated by increase in retail supply tariff for FY25.

MSEZ has considered the mark-up cost component at Rs.0.25 per unit for FY25. Accordingly, MSEZ has arrived at power purchase cost at the IF point with MESCOM and the Short-Term Open Access Power (STOA) purchase at Rs.49.36 Crores for FY25 and has requested the Commission to allow power purchase cost for FY25.

Commission's analysis and decision:

The Commission takes note of the submission made by MSEZL in claiming the power purchase cost for FY25. In order to arrive at the power purchase cost for the determination of revised ARR and retail supply tariff of the deemed licensees (SEZ) operating in the State, the Commission, in accordance with the methodology adopted in the Tariff Order dated 4th April 2022, 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, with the addition of Rs.0.25 per unit as the Trading Margin, energy handling and grid support charges and transmission loss component.

Accordingly, the computation of power purchase cost for FY25 is shown in the following tables:

TABLE - 2.3
Power Purchase Cost for FY25
(As per State approved PP cost excluding Hydro)

Particulars	Energy in MU	Cost Rs. Crores	Weighted Average PP cost Rs./ Unit	MSEZ Energy purchase at IF point MU	PP cost
State PP cost excluding Hydro	69276.00	50154.36	7.240		
Add: Trading Margin , Energy handling and Grid support charges including the transmission loss component			0.25		
PP cost at Interface Point			**7.4898**	**51.530**	**38.595**
Power Purchase under OA			5.45	30.250	16.486
Total energy requirement at Gen. Bus and total power purchase cost for FY24				**81.780**	**55.081**

The above computed per unit rate of power purchase cost includes the trading margin, energy handling, grid support chargers including the transmission loss component payable to MESCOM. **Hence, the Commission decides to approve total power purchase cost of Rs.55.081 Crores for 81.78 MU of energy delivered to MSEZL by MESCOM and through Open Access at the IF point for FY25.**

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 year-wise purchase cost is worked out as indicated in the following:

TABLE – 2.4
Approved Sales and Power Purchase cost for FY25

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
FY25	81.53	0.31%	81.78	6.7353	55.081

Thus, the Commission decides to approves power purchase cost of Rs.55.081 Crores, for FY25.

2.7 O & M Expenses:

MSEZL has claimed the O&M expenses of Rs.1.87 Crores as approved by the Commission in its Tariff Order dated 04.04.2022 and also as per the MYT Regulations by considering the following parameters:

a) The actual O&M expenses of Rs.1.77 Crores as per the audited accounts for FY23, as the base to determine the normative O&M expenses for FY25.
b) The weighted inflation index of 6.1611%.
c) Consumer Growth Rate (CAGR) 2.50%
d) Efficiency factor at 0.5%.

MSEZL has claimed the O&M expenses with the breakup of Rs.0.54 Crores, Rs.0.87 Crores and Rs. 0.46 Crores towards employee cost, R&M expenses and A&G expenses for FY25 respectively.

Commission's analysis and decision:

The Commission, in accordance with the provisions of MYT Regulations and the methodology adopted while approving the O&M expenses for FY25, as carried out in respect of ESCOMs, 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 FY25 is computed as follows:

TABLE – 2.5

Computation of Inflation Index

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2011	98.2	66.5	72.84				
2012	105.7	72.7	79.30	1.09	0.08	1	0.08
2013	111.1	80.6	86.70	1.19	0.17	2	0.35
2014	114.8	85.7	91.52	1.26	0.23	3	0.68
2015	110.3	90.8	94.70	1.30	0.26	4	1.05
2016	110.3	95.3	98.30	1.35	0.30	5	1.50
2017	114.1	97.6	100.90	1.39	0.33	6	1.96
2018	118.9	102.4	105.70	1.45	0.37	7	2.61
2019	121.2	110.2	112.40	1.54	0.43	8	3.47
2020	121.8	116.3	117.40	1.61	0.48	9	4.30
2021	135.0	122.0	124.60	1.71	0.54	10	5.37
2022	151.3	129.2	133.62	1.83	0.61	11	6.67
A= Sum of the product column							28.04
B= 6 Times of A							168.22
C= (n-1) *n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.06
g (Exponential factor) = Exponential (D)-1							0.056973
e=Annual Escalation Rate (%) =g*100							**5.6973**
As per CERC Notification No.Eco T I / 2022-CERC dated 30.03.2022 with weightage of 80% on CPI and 20% on WPI							

The Commission as per the MYT norms has computed the O&M expenses for FY25 as under:

TABLE – 2.6

Approved O & M Expenses-FY25

Amount in Rs. Crores

Particulars	**FY25**
No. of Installations	29
3 year CAGR of Consumers	3.71%
Inflation	5.6973%
Base Year O&M Cost (As per the actuals of FY22)	1.68
Allowable normative O&M Index= 0&M (t-1)*(1+WII-X) for FY25	2.05
O&M expenses claimed by MSEZL	1.87
Approved O&M expenses	**1.87**

The Commission notes that, the allowable O&M expenses computed as per the provisions of MYT Regulations is Rs.2.05 Crores for FY25. However, MSEZL in its filing has claimed O&M expenses of Rs. 1.87 Crores for FY25. Thus, the Commission by considering the submission made by MSEZL, decides to limit the allowable O&M expenses to Rs.1.87 Crores, as per actuals claimed by the MSEZL for FY25.

Thus, the Commission decides to approve the O&M expenses of Rs.1.87 Crores for FY25.

2.8 Depreciation:

MSEZL in its filing, has claimed Rs.2.88 Crores as against Rs.2.83 Crores as depreciation for FY25. MSEZL has computed the depreciation as per the notified rates on the 90% average value of the projected Gross Fixed Assets (GFA) for FY25.

Commission's analysis and decision:

The Commission has noted the actual opening and closing balance of GFA, depreciation charged and the weighted average depreciation rate thereon for FY23. Accordingly, the Commission, by considering the approved capex and categorization of assets thereon 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 FY25 as under:

TABLE – 2.7

Approved Depreciation for FY25

Amount in Rs. Crores

Particulars	Depreciation
Buildings	0.09
Civil works	0.03
Plant & Machinery	1.01
Line, Cable Network	1.75
Furniture	0.00
Office Equipment	0.00
GFA Total	**2.88**

Thus, the Commission decides to approve the depreciation amount of Rs.2.88 Crores, for FY25.

2.9 Interest on loans:

MSEZ, in its filling, by considering the interest on normative loan for the excess of equity amount over 30% of GFA, as per the MYT Regulations has claimed interest on capital loan of Rs.4.33 Crores as against Rs.2.641Crores approved by the Commission, as per Tariff Order dated 04.04.2022 for FY25. MSEZL has not proposed any new borrowings for FY25.

The interest on loan claimed by the MSEZL for FY25 is as follows:

TABLE – 2.8

Interest on Loan Capital for FY25 - MSEZLs' Submission

Amount In Rs. Crores

Sl. No.	Particulars	FY 25
1	Opening balance	17.46
2	Add: New loans	0.00
3	Less: Repayments	0.00
4	Total loan at the end of the year	17.46
5	Average loan	17.46
6	Rate of interest % (7.90% + 0.40%)	8.65%
7	**Interest on capital loan claimed**	**1.51**

TABLE – 2.9

Normative Interest for FY25 - MSEZL's Submission

Amount In Rs. Crores

Sl. No.	Particulars	FY 25
1	Opening balance of GFA	67.71
2	30% of GFA (eligible for allowance of RoE)	20.313
3	Opening balance of equity	52.93
4	Equity in excess of 30% of GFA (3-2)	32.617
5	Rate of Interest in %	8.65%
6	**Allowable normative interest claimed in MYT ARR**	**2.85**

Commission's Analysis and Decision:

The Commission notes the parameters considered by MSEZ in claiming the interest on capital loan for FY25.

The Commission observes that MSEZL has not proposed any new borrowings of capital loan and has not considered repayment of loan during FY25. The Commission also takes note of the total capital loan balances of MSEZL as a whole and of its licensed activity, as per the consolidated audited accounts for FY23. The Commission, in line with the submissions made by MSEZ, has not considered any amount towards new loans and repayment during for FY25.

Further, The Commission by considering the actual weighted interest rate of 7.8427% of FY23 decides to allow the interest on capital loan for FY25 as under:

TABLE – 2.10

Approved Interest on Loan for FY25

Amount in Rs. Crores

Particulars	FY25
Long term secured & unsecured loans	17.46
Add: New Capital Loans	0.00
Less: Repayments	0.00
Total loan at the end of the year	17.46
Average Loan	17.46
Interest Rate allowed in %	7.8427
Allowable Interest on loan	**1.3691**

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 of Rs.0.79 Crores for FY25 as under:

TABLE – 2.11

Allowable Normative Interest on excess equity for FY25

Amount in Rs. Crores

Particulars	FY25
Opening balance of GFA	67.71
30% of GFA(Eligible for allowance of RoE	20.314
Opening balance of Equity	36.36
Equity in excess of 30% of GFA (3-2)	16.046
Allowable interest in %	7.8427%
Normative loan balances as per MSEZ D-9 statement	
opening balance	10.07
Repayment	NIL
Closing Balance	10.07
Allowable normative interest at the rate of 7.8427%	0.7898

Thus, the Commission decides to approve the total interest on capital loans inclusive of normative interest of Rs.2.1589 Crores for FY25.

2.10 Interest on Working Capital Loan:

The MSEZL, in its filing has claimed Rs.1.22 Crores as against Rs. 0.96 Crores approved by the Commission in Tariff Order dated 04.04.2022 towards the interest on working capital at the interest rate of 11.15% (8.65% + 2.50%) for FY25.

Commission's Analysis and decisions:

The Commission notes the submission made by MSEZL in claiming the interest on working capital at 11.15% for FY25. The Commission in computation of interest on working capital as per the provisions of MYT Regulation has considered the SBI MCLR for loan with tenure up to one year of 8.65% per annum and with the spread of 250 basis points at 11.15% for FY25.

As per the norms specified under the MYT Regulations, the Commission has computed the interest on working capital for FY25 as under:

TABLE – 2.12
Approved Interest on Working Capital – FY25
Amount in Rs. Crores

Particulars	FY 25
One-twelfth of O&M Expenses	0.156
Opening GFA as per Audited Accounts	67.74
Stores, materials and supplies 1% of Opening balance of GFA	0.677
One-sixth of the Revenue	10.929
Total Working Capital	11.76
Rate of Interest (% p.a.) (8.65% + 250 Basis Points)	11.15%
Interest on Working Capital	1.311
Allowable Interest on working capital for FY25	**1.311**

Accordingly, the Commission decides to allow the normative interest on working capital of Rs.1.311 Crores for FY25.

2.11 Interest on Consumer Security Deposits:

MSEZL has claimed Rs.0.68 Crores towards interest on Consumer Security Deposits for FY25. MSEZL submitted that no new additional consumer security deposits are envisaged during FY24 and FY25. Hence, the outstanding consumer deposits on 31.03.2023 of Rs.10.04 Crore has been considered for calculating interest on consumer deposits at the RBI bank rate of 6.75% for FY25.

Commission's analysis and decisions:

In accordance with the provisions of KERC (Interest on Security Deposit) Regulations, 2005, the Commission, by considering the interest rate on consumer security deposit at the prevailing rate 6.75% as per the RBI Bank rate.

The Commission notes the submission made by MSEZL and the amount of consumer security Deposit balance of Rs. 6.51 Crores held as on 31.03.2023 as per the audited accounts for FY23. MSEZL has not proposed any addition of consumer during FY24 and FY25. Accordingly, the Commission has decided to consider the same amount of deposit for computation of interest on Consumer Security Deposit for FY25.

The Commission, by considering the Consumer Security Deposit amount as per the audited accounts of FY23, the additional deposits to be collected during FY24 and FY25 and the submission of MSEZL, in accordance with the provision of KERC (Interest on Security Deposit), Regulations, 2005 has considered the prevailing rate of RBI bank rate of 6.75% and computed the allowable interest on consumer security deposit as under:

TABLE – 2.13

Allowable Interest on Consumer Security Deposits for FY25

Amount in Rs. Crores

Particulars	FY25
Opening Balance of Consumer Deposits as per Accounts	7.693
Increase in CSD	0.520
Closing Balance of Consumer Deposits as per Accounts	8.213
Rate of Interest Allowed	6.75%
Allowable Interest on Consumer Deposit	**0.54**

Thus, the Commission decides to allow the interest on Consumer Security Deposits of Rs.0.54 Crores for FY25.

2.12 Return on Equity (RoE):

MSEZL in its filing has claimed the return on equity (RoE) of Rs.3.82 Crore as against Rs.3.125 Crores approved by the Commission as per MYT Tariff Order dated 04.04.2022 for FY25.

Commission's analysis and decision:

The Commission notes the closing balance of share capital and the accumulated surplus/deficit as per the bifurcated audited accounts of Rs. 52.93 Crores for FY23. The Commission in accordance with the provision of the MYT Regulations has considered 15.5% of Return on Equity.

Further, the Commission also notes that the opening balance of GFA estimated by MSZ is Rs.67.74 Crores for FY25. The Commission has decided to reckon the net equity of Rs.52.93 Crores as at the end of March, 2023, as the opening balance of net equity for computation of RoE for FY25. However, as per the provisions of MYT Regulations the Commission, has considered 30% of the total value of opening balance of the projected Gross Fixed Assets (GFA), as the maximum allowable equity in allowance of the RoE for FY25. Thus, the Commission decides to approve the allowable RoE for FY25 grossed up with MAT at 17.472%, as detailed in the following table:

TABLE – 2.14

Approved Return on Equity for FY25

Amount in Rs. Crores

Particulars	FY25
Opening balance of Share Capital	35.550
Opening balance of Accumulated profit	17.380
Net Equity at the beginning of the year	52.930
Eligible Equity to allow RoE @ 30% of Opening balance of GFA	20.323
Allowable RoE by considering 30% of GFA at 15.5%	3.15
RoE Grossed up with MAT @ 17.472% allowed by the Commission	**3.817**

Thus, the Commission decides to approve RoE of Rs.3.817 Crores for FY25.

2.13 Other Income:

The Commission takes note the amount of other income of Rs. 0.67 Crores mainly consists of interest on fixed deposits as proposed by MSEZL for FY25. **Accordingly, the Commission has decided to approved the Other Income of Rs.0.67 Crores as proposed by MSEZL for FY25.**

2.14 Other Debits:

MSEZL in its filing has proposed Rs. 0.04 Crores as provision for non-recovery of outstanding revenue balance (not involving cash outflow) under Other debits for FY25. The Commission as per Provisions of MYT Regulations has not considered to allow the amount in approval of revised ARR for FY25.

2.15 Abstract of Approved ARR for FY25:

Based on the above analysis and decision of the Commission, the net approved ARR for FY25 is as follows:

TABLE – 2.15

Approved ARR of MSEZL for FY25

Amount in Rs. Crores

Particulars	FY25
Power Purchase Cost	55.081
O&M Expenses	1.870
Depreciation	2.880
Interest on Capital Loan	2.159
Interest on Working Capital	1.311
Interest on Consumer Security Deposit	0.537
RoE	3.817
Less: Other Income	-0.67
Total ARR for FY25	66.985
Less: Surplus of FY23 carried forward	0.031
Net ARR	**66.954**

2.16 Average Cost of Supply:

TABLE – 2.16

Average Cost of Supply

Year	Approved Net ARR Rs. Crores	Sales(MU)	Average Cost of Supply Rs. per unit
FY25	66.954	81.53	8.212

2.17 Revenue:

MSEZL has indicated revenue of Rs.61.06 Crores from the sale of 75.16 MU at the existing retail supply tariff approved by the Commission for FY25.

The Commission has considered the revenue at Rs.65.573 Crores at existing tariff for the approved sale of 81.53 MU for the same period.

2.18 Surplus in Revenue:

As discussed above, the Commission by considering the carry forward net surplus of Rs.0.031 Crores, as per the APR for FY23, has decided to approve the revised ARR of Rs.66.954 Crores as against Rs.62.21 Crores proposed by MSEZL for FY25.

Based on the existing retail supply tariff, the total revenue realization from sale of power will be Rs.65.574 Crores, resulting in the net revenue gap of Rs.1.381 Crores as against the approved ARR of Rs.66.954 Crores for FY25 as detailed below:

TABLE - 2.17

ARR and the revenue gap of FY25

Sl. No.	Particulars	FY 25
1	Approved ARR in Rs. Crores	**66.954**
2	Approved sales in MU	81.53
3	Average cost of Supply in Rs. / Unit	8.212
4	Revenue at existing tariff in Rs. Crores.	65.573
5	**Net Deficit (-) for FY25**	**(-)1.381**

2.19 Retail Supply Tariff of MSEZL for FY25:

The Commission based on the above approved ARR and by considering the above facts in order to ensure full recovery of the ARR has approved the following retail supply tariff for FY25.

TABLE – 2.18

Approved Retail Supply Tariff of MSEZL for FY25

Category	Particulars	Rate
HT Industrial	Demand Charges Rs./KVA/month	325
	Energy Charges Rs./kWh	6.90
HT Construction / Temporary	Demand Charges Rs./KVA/ month	350.00
	Energy Charges Rs./kWh	11.00
LT Industrial	Fixed Charges Rs./ KW/ Month	225.00
	Energy Charges Rs./kWh	6.10
LT Construction \ temporary	Fixed Charges Rs./ KW/ Month	300.00
	Energy Charges Rs. / kWh	11.00

The terms and condition / general condition applicable to both LT and HT category as approved by the Commission in approval of retail supply tariff of MESCOM is also applicable to MSEZL consumer.

2.20 Wheeling Charges

MSEZL in their Tariff Petition has proposed wheeling charges of Rs.1.33/- unit for HT network and Rs.0.07/unit for LT network.

The Commission had observed that MSEZL had not worked out the losses applicable for HT network. Hence, MSEZL was directed to furnish the same.

The Commission notes that MSEZL has submitted that the HT losses would be 0.55% and the LT losses would be 0.05%. Further, MSEZL has apportioned the FY25 ARR between distribution network and retail supply in accordance with the allocation matrix proposed by the Commission in the Draft KERC (Multi Year Transmission, Distribution and Retail Supply Tariff) Regulations, 2023 as follows:

Particulars	Distribution Business (%)	Retail Supply business (%)
Power purchase expenses	-	100%
O&M Expenses	55	45
Depreciation	85	15
Interest on capex	90	10
Interest on working capital	15	85
Interest on consumer security deposits	-	100
Bad and Doubtful debts	-	100
Income tax (refer point iv below)	90	10
Return on equity	75	25
Other income (refer point v below)	20	80

Considering the above allocation and ARR of 66.969 Crores, the distribution network cost is computed as indicated below:

Particulars	Total ARR components Rs. Crs.	Distribution Business (%)	Distribution Business cost
Power purchase expenses	55.082	-	0.00
O&M Expenses	1.870	55	1.029
Depreciation	2.880	85	2.448
Interest on capex	2.159	90	1.943
Interest on working capital	1.311	15	0.197
Interest on consumer security deposits	0.519	-	0.00
Bad and Doubtful debts	0.00	-	0.00
Return on equity grossed up by MAT	3.817	75	2.863
Less Other income	0.670	20	0.134
Total ARR	66.969		8.346

Thus the ARR allocated to distribution network works out to Rs.8.346 Crs. Considering the approved sales for MSEZL of 81.53MU, the total wheeling charges works out to Rs.1.02 / unit which is allocated between HT & LT in the ratio of 95:5 as proposed by MSEZL. Accordingly, the HT wheeling charges would work out to 97 paise / unit and the LT network cost would work out to 5 paise / unit. In addition to the above considering the approved loss of 0.3% and considering the allocation as per the energy flow diagram, the HT losses shall be 0.275% and the LT losses shall be 0.025% for the wheeling transactions.

However, the Commission directs MSEZL to furnish the breakup of costs between retail supply business and distribution business, segregating the accounts of MSEZL in the future.

In view of the above, the wheeling charges for MSEZL is as indicated below:

2.20.1 Wheeling within MSEZL Area:

The wheeling charges to each voltage level are worked out as under:

	Paise/unit
HT-network	97
LT-network	5

In addition to the above, the following technical losses are applicable to all open access/wheeling transactions:

Loss allocation	% loss
HT	0.275
LT	0.025

Note: Total loss is allocated to HT, LT & Commercial loss based on energy flow diagram furnished by HUKERI RECS.

The actual wheeling charges payable (after rounding off) will depend upon the point of injection & point of drawal as under:

Injection point → / Drawal point ↓	HT	LT
HT	97(0.275%)	102(0.30%)
LT	102(0.30%)	5(0.025%)

Note: Figures in brackets are applicable losses

The wheeling charges as determined above are applicable to all the open access / wheeling transactions including GEOA transactions, for using the MSEZL's network only. For Non-GEOA RE sources the charges shall be as discussed in the later paragraphs of this order.

2.20.2 WHEELING OF ENERGY [all transactions including GEOA and excluding Non-GEOA RE sources wheeling to consumers within the State] USING TRANSMISSION NETWORK AND/OR NETWORK OF MORE THAN ONE LICENSEE

i. If only transmission network is used [both injection and drawal at transmission network], only transmission charges including transmission losses as determined by the Commission in the KPTCL's Transmission Tariff order shall be payable to the Transmission Licensee.

ii. If the Transmission network and the MSEZL's networks are used:

a. Injection at transmission network & drawal at HT network of MSEZL:

In addition to transmission losses and MSEZL's HT technical losses, Transmission Charges shall be payable to the Transmission Licensee and HT network wheeling charges of drawal MSEZL shall be payable to the MSEZL where the power is drawn. Wheeling charges of the MSEZL where the power is drawn shall be shared equally among the ESCOMs whose networks are used, if any.

b. Injection at transmission network & drawal at LT network of MSEZL:

In addition to transmission losses and drawal MSEZL's HT & LT technical losses, Transmission Charges shall be payable to the Transmission Licensee and distribution network [LT+HT] wheeling charges of drawal MSEZL shall be payable to the MSEZL where the power is drawn. Wheeling charges of the MSEZL where the power is drawn shall be shared equally among the ESCOMs whose networks are used, if any.

c. Injection at MSEZL's HT network & drawal at Transmission Network:

In addition to transmission losses and injection MSEZL's HT technical losses, Transmission Charges shall be payable to the Transmission Licensee and HT network wheeling charges of injection MSEZL shall be payable to the MSEZL where the power is injected. Wheeling charges of the MSEZL where the power is injected shall be shared equally among the ESCOMs whose networks are used, if any.

d. Injection at MSEZL's LT network & drawal at Transmission Network

In addition to transmission losses and injection MSEZL's HT & LT technical losses, Transmission Charges shall be payable to the Transmission Licensee and distribution network [LT+HT] wheeling charges of injection MSEZL shall be payable to the MSEZL where the power is injected. Wheeling charges of the MSEZL where the power is injected shall be shared equally among the ESCOMs whose networks are used, if any.

e. Inter-distribution licensee transactions [injection at HT or LT of one distribution licensee and drawal at HT or LT of other distribution licensee]:

In such cases, in addition to the distribution losses of drawal distribution licensee [both LT + HT loss irrespective of injection or drawal voltage level], distribution network charges [wheeling charges both HT+LT] of the drawal distribution licensee shall be paid to the drawal distribution licensee. Wheeling charges of the distribution licensee where the power is drawn shall be shared equally with the injection distribution licensee.

2.20.3 Charges for Wheeling of Energy by Non-GEOA Renewable Energy (RE) Sources (Non-REC Route) to the Consumers in the State

The separate orders issued by the Commission from time to time in the matter of wheeling and banking charges for Non-GEOA RE sources (Non-REC route) including solar power projects wheeling energy to consumers within the State shall be applicable.

2.20.4 Charges for Wheeling Energy by Non-GEOA RE Sources Wheeling Energy from the State to a Consumer/Others Outside the State and for those opted for Renewable Energy Certificate [REC]

In case the renewable energy is wheeled from the State to a consumer or others outside the State, the normal wheeling charges as determined in 2.20.1 and 2.20.2 above of this Order shall be applicable. For Captive RE generators including solar power projects opting for RECs, the wheeling charges as specified in the separate Orders issued by the Commission from time to time shall be applicable.

2.21 Banking Charges for RE sources:

Banking Charges as specified in the separate Orders issued the Commission from time to time, shall be applicable.

2.22 Cross subsidy surcharge:

Regarding the CSS, the orders passed by the Commission in RP No. 5 of 2022 shall apply for FY25 also, as long as there are no subsidized categories of consumers.

2.23 Additional surcharge:

MSEZL had requested to make applicable the ASC determined for all ESCOMs to MSEZL also. Subsequently, on 8th December, 2023, keeping in view the order of the Commission dated, 17.11.2023, MSEZL has proposed ASC of 64 paise/unit for all OA consumers and has furnished the following details.

1	Total fixed cost as proposed in tariff application for FY25	Rs.14.17 Crore
2	Fixed cost recovered through demand charges as proposed for FY25	Rs.9.37 Crore
3	Balance fixed cost embedded in energy charges (1-2)	Rs.4.80 Crore
4	Total energy sales in FY25	75.16 MUs
5	Fixed cost per unit embedded in energy charges (3/4)	Rs.0.64

MSEZL was directed to clarify as to whether any concession in ASC has to be extended for the power procured from RE sources.

MSEZL has in their replies have submitted the ASC shall be levied to all open access consumers including those procuring power from RE sources, to ensure uniform recovery of charges.

The Commission has determined the ASC for MSEZL., adopting the same methodology considered for ESCOMs as follows:

Total Fixed cost as per Tariff Order 2024: Rs.35.1561 Crores
Fixed Cost recovered through Demand Charges: Rs.10.704 Crores
Balance fixed cost embedded in energy charges: Rs.24.4521 Crores

Total energy sales by AEQUS to its consumers: 81.53 MUs
FC/unit embedded in energy charges = 24.4521x10/8.53=Rs.2.94

Thus, Rs.2.94/unit of fixed cost embedded in the energy charges is determined as the ASC. The Commission in the previous Tariff Order of ESCOMs has noted that, with more and more integration of RE sources, concessions cannot be extended forever and such concessions need to be removed fully in a phased manner. As such, the Commission decides to levy Rs.2.94/unit as the ASC for FY25 for all the OA consumers of MSEZL. However, in respect of OA consumers procuring power from RE sources, the Commission decides to levy 60% of the above ASC and after rounding off, the Commission decides to levy 176 paise/unit as the ASC for FY25.

2.24 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 APR for FY23, ARR for FY25 and notifies the Retail Supply Tariff of MSEZL for FY25 as per Table 2.18 above.**

2. **The above retail supply tariff shall come into effect for the electricity consumed from the first meter reading date falling on or after 1st of April, 2024, 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 28th February, 2024.**

(P. Ravi Kumar) **Chairman**	**(M.D. Ravi)** **Member**