Mangalore SEZ Limited
Sy. No 168/3A, Plot No. U-1, Administrative Building,
Mangalore Special Economic Zone, Bajpe Village,
Mangaluru Taluk, Dakshina Kannada (Dist.), Karnataka-574 142.
Phone: 0824-2885501/02 Fax: 0824-2885503
E-mail: info@msezl.com Website: www.mangaloresez.com
CIN: U45209KA2006PLC038590

MSEZL/F&A/KERC/2020-21

19th December, 2020

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

Dear Sir.

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

***

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

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

Reply to Observation 1:

In FY 20, the energy consumption by HT Industrial consumers increased by 5.98 MUs. The consumer wise energy sale is furnished in Annexure I to this letter.

Reply to Observation 2 (a) and 2(b):

The consumer wise energy sales in (i) FY 20 and (ii) the energy estimation for FY 21 & FY22 along with the details of connected load are attached as Annexure I to this letter.

Reply to Observation 2(c):

The energy estimation for FY 22 is made considering the existing consumers profile only. In the energy estimation for FY 22, MSEZL has not envisaged new consumer/industry profile.

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

Mangalore SEZ Limited * Mangaluru *

Reply to Observation 2(d):

The consumer wise sales for FY 21 upto November 2020 is attached as Annexure II to this letter.

Reply to Observation 3.

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

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

Reply to 4th Observation:

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

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

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

Reply to 5th Observation:

The energy estimation for FY 22 is made considering only the existing consumers. The error in page 39 is regretted.

Mangalore SEZ Limited * Mangaluru *

Reply to 6th Observation:

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

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

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

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

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

Reply to 7th observation:

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

Mangalore SEZ Limited * Mangaluru *

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

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

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

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

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

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

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

FY 20 APR

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

Alternative Presentation

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

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

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

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

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

Thanking you,
Yours faithfully,
For MANGALORE SEZ LTD

Authourized Signatory

Mangalore SEZ Limited * Mangaluru *

Annexure I

A. Consumers who have commenced operations						
	FY 2019-20		FY 2020-21		FY 2021-22	
	Actual		Actal/Estimated		Estimated	
Description	**MVA**	**MU**	**MVA**	**MU**	**MVA**	**MU**
ONGC Mangalore Petrochemicals Limited	10	24.21	10	20.74	10	21.00
Indian Strategic Petroleum Rerseves Limited	4.5	5.48	4.5	5.10	4.5	5.10
Cardolite Specialty Chemcials India LLP	1.2	7.85	1.2	6.15	1.2	4.00
Authentic Ocean Treasure	1.5	3.76	1.5	3.14	1.5	3.25
Syngene International Limited **(Construction Power)**	1	0.20	1	-	-	-
Gadre Marine Export (**Construction power**)	0.05	0.03	0.05	-	-	-
Yashaswi Fish meal & Oil company (**Construction Power**)	0.02	0.01	0.02	-	-	-
Shree ULKA LLP	2	3.02	2	3.18	2	3.18
Yashaswi Fish meal & Oil company	3	3.58	3	4.41	1.75	4.41
Gadre Marine Export	3.5	5.06	3.5	6.06	3.5	6.06
MSEZL UTILITIES	**3.05**	**1.75**	**3.05**	**1.83**	**3.05**	**1.83**
	29.82	**54.95**	**29.82**	**50.62**	**27.50**	**48.84**

B. Consumers who have commenced operations in FY 20 - FY 21						
	FY 2019-20		FY 2020-21		FY 2021-22	
	Actual		Actal/Estimated		Estimated	
	MVA	MU	MVA	MU	MVA	MU
Syngene International Limited	1	1.50	1	3.7	1	3.02
Cataasynth Speciality Chemicals	3.7	0.05	3.7	2.77	3.7	4.55
Syngene International Limited - ETP	0.2	0.02	0.2	0.10	0.2	1.16
	4.9	**1.57**	**4.9**	**6.60733**	**4.9**	**8.73**
	34.72	**56.52**	**34.72**	**57.22**	**32.40**	**57.57**

Mangalore SEZ Limited * Mangaluru *

Annexure II

Actual Energy consumption upto November 2020

Name of consumer	Energy in Mus
ONGC Mangalore Petrochemicals Limited - OMPL (*) Refer note	16.56
Indian Strategic Petroleum Rerseves Limited	3.38
Cardolite Specialty Chemcials India LLP	4.35
Shree ULKA LLP	1.63
Yashaswi Fish meal & Oil company	2.81
Gadre Marine Export	3.83
Syngene International Limited	2.93
Syngene International Limited (ETP)	0.12
Cataasynth Speciality Chemicals	1.60
Authentic Ocean Treasure	1.82
MSEZL Utilities	1.21
Total	**40.22**

Note:

OMPL: The average monthly energy consumption by OMPL is only 1.5 MU (considering energy consumption of May 2020, June 2020, August 2020, Sep 2020 and Nov 2020)

OMPL: The energy consumption by OMPL for the month of April 2020 is 4.04 MU (which is more by 2.5 MU compared to avergae monthly consumption). In April 2020 due COVID induced shutdown OMPL had relied on grid power, rather than captive power plant. Also, the energy consumption in July 2020 is 1.8 MU and Oct 2020 is 2.4 MU. The energy consumption during July and October 2020 is also more compared to average monthly consumption due planned plant shutdown for maintenance activities.

Mangalore SEZ Limited
* Mangaluru *

Annexure III

VTPC

VISVESVARAYA TRADE PROMOTION CENTRE
(Government of Karnataka Organisation)

VTPC/ASIDE/2015-16

14-07-2015

The Managing Director & CEO
M/s. Mangalore SEZ Ltd
No 16 'Pranava Park' 3rd floor
Infantry road Bengaluru-560001

RECEIVED
15.07.2015

Dear Sir

Sub: Release of funds under ASIDE scheme for "Construction of Common Effluent Treatment Plant (CEPT) for MSEZL units".

Ref.Your letter No. MSEZL/BG/318/Aside/2015 dated 29-6-2015

As you are kindly aware, your project "Construction of Common Effluent Treatment Plant (CEPT) 1.5 MLD for MSEZL units in the first phase" was approved for funding under ASIDE Scheme in the 16th SLEPC meeting held on 24-7-2014 for Rs. 19.40 Crore, out of which Rs. 5.00 Crores from ASIDE and balance Rs.14.40 Crores from MSEZ.

As requested vide letter under reference the Commissioner for Industrial Development and Director of Industries & Commerce (Nodal Officer for the ASIDE Scheme for Karnataka) has authorised for the release of Rs.3,00,00,000/- (Rupees three crores only) for the above project as first installment.

An amount of Rs.2,97,00,000/- (Rupees Two crores ninety seven lakhs only) has been transferred to your account of Indian Overseas Bank, Padavu branch, P.O. Bejai, Mangaluru-575004 account No. 157202000001000 on 9-7-2015 from State Bank of Mysore, S.R.Nagar Branch, Bangalore for the above project after deducting TA services charges of Rs.3,00,000/- payable to nodal agency viz., VTPC.

The funds are released subject to following conditions imposed by SLEPC.

1. The reports of Physical and Financial progress must be submitted to Nodal Agency before 2nd of every month but not less then 5th of every month alongwith photograph without fail.
2. Any slowness or non utilisation of funds is noticed, the funds will be withdrawn and released to the projects ready for implementation or for fast track projects.
3. The Inspection of worksite will be undertaken by the Nodal Agency and also the evaluation of the project will be done by Development Commissioner, Cochin Special Economic Zone, Govt. of India. The field officers should be advised to facilitate inspection.

Mangalore SEZ Limited * Mangaluru *

4. The quality of works and time schedule should be adhered to and any lapses noticed, suitable action will be proposed.

5. The Utilisation Certificate should be submitted along with non corruption certificate in the prescribed form before the stipulated period to enable Nodal Agency to submit the same to Govt. of India. Any delay on our part, Govt. of India will not release the entitled funds for the next year.

6. A befitting function should be organised for inauguration after completion of works / facilities with emphasis on funding from ASIDE.

7. A prominent display board containing details of funding under ASIDE Scheme at an appropriate place should be putup.

8. UC duly certified by CA and Completion Certificate should be submitted within the scheduled time. Otherwise as per the decision of Ministry of Commerce 10% interest will be charged on the unutilised amount till the date of submission of UC.

9. Export performance of MSEZ units at present and after creation of the above infratructure facilities should be submitted.

10. The amount should be released to the contractor on the basis of progress made by the contractor.

The next installment of ASIDE funds will be released only after receipt of Utilisation Certificate and Third Party quality inspection report.

Thanking you,

Yours faithfully

(K.S. SHIVASWAMY)
MANAGING DIRECTOR

Mangalore SEZ Limited * Mangaluru *

Mangalore SEZ Limited * Mangaluru *

Annexure IV

VTPC

VISVESVARAYA TRADE PROMOTION CENTRE

(Government of Karnataka Organisation)

VTPC/ASIDE/2015-16

14-07-2015

The Managing Director & CEO
M/s. Mangalore SEZ Ltd.,
No.16, 'Pranava Park', 3rd floor,
Infantry road, Bengaluru-560001.

Dear S

Sub: Release of funds under ASIDE scheme for "Construction of two lane flyover near Jokkate junction at MSEZ".

Ref:Your letter No. MSEZL/BG/318/Aside/2015 dated 29-6-2015

As you are kindly aware, your project "Construction of two lane flyover near Jokkate junction at MSEZ" was approved for funding under ASIDE Scheme in the 16th SLEPC meeting held on 24-7-2014 for Rs. 37.22 Crore, out of which Rs 15.00 Crores from ASIDE and balance Rs.22.22 Crores from MSEZ.

As requested vide letter under reference the Commissioner for Industrial Development and Director of Industries & Commerce (Nodal Officer for the ASIDE Scheme for Karnataka) has authorised for the release of Rs 10,00,00,000/- (Rupees ten crores only) for the above project as first installment.

An amount of Rs. 9,90,00,000/- (Rupees Nine crores ninety lakhs only) has been transferred to your account of Indian Overseas Bank, Padavu branch, P.O. Bejai Mangaluru-575004 account No. 157202000001000 on 9-7-2015 from State Bank of Mysore, S.R Nagar Branch, Bangalore for the above project after deducting 1% services charge of Rs 10,00,000/- payable to nodal agency viz. VTPC.

The funds are released subject to following conditions imposed by SLEPC

1. The reports of Physical and Financial progress must be submitted to Nodal Agency before 2nd of every month but not less then 5th of every month alongwith photograph without fail.
2. Any slowness or non utilisation of funds is noticed, the funds will be withdrawn and released to the projects ready for implementation or for fast track projects.
3. The inspection of worksite will be undertaken by the Nodal Agency and also the evaluation of the project will be done by Development Commissioner, Cochin Special Economic Zone, Govt. of India. The field officers should be advised to facilitate inspection.
4. The quality of works and time schedule should be adhered to and any lapses noticed, suitable action will be proposed.

5. The Utilisation Certificate should be submitted along with non corruption certificate in the prescribed form before the stipulated period to enable Nodal Agency to submit the same to Govt. of India. Any delay on our part, Govt. of India will not release the entitled funds for the next year.

6. A befitting function should be organised for inauguration after completion of works / facilities with emphasis on funding from ASIDE.

7. A prominent display board containing details of funding under ASIDE Scheme at an appropriate place should be putup.

8. UC duly certified by CA and Completion Certificate should be submitted within the scheduled time. Otherwise as per the decision of Ministry of Commerce 10% interest will be charged on the unutilised amount till the date of submission of UC.

9. Export performance of MSEZ units at present and after creation of the above infratructure facilities should be submitted.

10. The amount should be released to the contractor on the basis of progress made by the contractor.

The next installment of ASIDE funds will be released only after receipt of Utilisation Certificate and Third Party quality inspection report.

Thanking you,

Yours faithfully

(K.S. SHIVASWAMY)
MANAGING DIRECTOR

Mangalore SEZ Limited * Mangalore *