



ಕರ್ನಾಟಕ ರಾಜ್ಯಪತ್ರ

ಅಧಿಕೃತವಾಗಿ ಪ್ರಕಟಿಸಲಾದುದು

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ಸರ್ಕಾರದ ಆಯಾ ಇಲಾಖೆಗಳ ಮುಖ್ಯಸ್ಥರ ಮತ್ತು ಸ್ಥಳೀಯ ಪ್ರಾಧಿಕಾರಿಗಳಿಗೆ
ಸಂಬಂಧಿಸಿದ ಅಧಿಸೂಚನೆಗಳು

KARNATAKA ELECTRICITY REGULATORY COMMISSION
16 C-1, Miller Tank Bed Area, Vasanthnagar, Bengaluru – 560 052.

**Draft Karnataka Electricity Regulatory Commission (Multi Year Transmission,
Distribution and Retail Supply Tariff) Regulations, 2023.**

Notification No. DD(Tariff)/2023-24/FTS-1345/629/Dated 21.09.2023.

PREAMBLE:

- 1) The Karnataka Electricity Regulatory Commission, had notified the KERC (Tariff) Regulations, 2000 on 9th June, 2000, in exercise of the powers conferred under Section 56 of The Karnataka Electricity Reform Act, 1999 (Act No.25 of 1999),
- 2) The Karnataka Electricity Regulatory Commission, in exercise of the powers conferred under Section 61 read with Section 181 of the Electricity Act 2003 (No. 36 of 2003), had notified the KERC (Terms and Conditions for Determination of Tariff for Transmission of Electricity) Regulations, 2006 and KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006 on 31st May, 2006;
- 3) The Forum of Regulators (FOR) has finalized the "Model Regulation for Multi Year Distribution Tariff" and communicated the same to all SERCs / JERCs vide their letter No.FOR-15 / 2 (84th meeting) / 2022-CERC/Dt.20.04.2023. These Model Regulations prescribe procedure and norms for determination of tariff for each of the financial years of the Control Period at the beginning of the Control Period itself. This would facilitate the electricity consumers to know the financial implications on account of electricity charges, beforehand for their future planning. Determination of tariff for
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each of the Control period, beforehand, would also ensure tariff certainty to the consumers;

- 4) In this background, the Commission has considered it fit to consolidate the existing “**Tariff Regulations**” and “**Terms and Conditions for Determination of Tariff for Transmission and Distribution and Retail Sale of Electricity Regulations**” into one comprehensive Regulation so as to have one Regulation for determination of tariff relating to Transmission, Distribution and Retails Supply Business;
- 5) Accordingly, in exercise of the powers conferred under Section (1) of Section 181 and clauses (zd), (ze) and (zf) of Sub-section (2) of Section 181, read with sections 61, 62 and 86 of the Electricity Act, 2003 (No. 36 of 2003) and all other powers enabling it in that behalf, the Karnataka Electricity Regulatory Commission hereby notifies the Draft of Karnataka Electricity Regulatory Commission (Multi Year Transmission, Distribution and Retail Supply Tariff) Regulations, 2023;
- 6) Interested persons/ stakeholders are requested to furnish/ submit their views comments / objections / suggestions, if any, on the proposed draft amendments within Fifteen (15) days from the date of its publication in the official gazette to the Secretary, Karnataka Electricity Regulatory Commission, No.16, C-1, Miller Tank Bed Area, Vasanthanagar, Bengaluru-560052.

PART-I

PRELIMINARY

1. Short Title and Commencement:

- 1.1 These Regulations shall be called “**The Karnataka Electricity Regulatory Commission (Multi Year Transmission, Distribution and Retail Supply Tariff) Regulations, 2023**”.
- 1.2 These Regulations shall come into force from the date of their notification in the Official Gazette.

2. Scope of the Regulations:

- 2.1 The Commission shall determine the Aggregate Revenue Requirement, Tariff and Charges, including terms and conditions thereof, in accordance with these

Regulations for all matters for which the Commission has jurisdiction under the Act, including the following: -

- (i) Intra-State transmission of electricity;
- (ii) Distribution / Wheeling of electricity;
- (iii) Retail supply of electricity;
- (iv) SLDC;
- (v) Cross Subsidy Surcharge in addition to the charges for wheeling under the first proviso to sub-section (2) of Section 42 of the Act, in accordance with the Regulations of the Commission governing Open Access and Orders issued by the Commission;
- (vi) Additional surcharge on the charges for wheeling under sub-section (4) of Section 42 of the Act, as may be specified by the Commission, to meet the fixed cost of the distribution licensees arising out of its obligation to supply;

Provided that the Commission shall determine such Tariff and Charges, having regard to the terms and conditions contained in these Regulations, as may be applicable;

- 2.2 Notwithstanding anything contained in these Regulations, the Commission shall adopt the Tariff if such Tariff has been determined through a transparent process of bidding in accordance with the guidelines issued by the Central Government under Section 63 of the Act;

Provided that the Petitioner shall provide such information as the Commission may require to satisfy itself that the guidelines issued by the Central Government have been duly followed;

- 2.3 In the case of distribution of electricity in the same area by two or more Distribution Licensees, the Commission may fix only the maximum ceiling of tariff for retail sale of electricity;

3. **Definitions:**

- 3.1 In these Regulations, unless the context otherwise requires, -

- 1) “**Act**” means the Electricity Act, 2003 (36 of 2003) and its amendments thereof;
- 2) “**Aggregate Revenue Requirement**” or “**ARR**” means the costs pertaining to the licensed business which are permitted, in accordance with the these, to be recovered from the tariffs and charges determined by the Commission;
- 3) “**Base Year**” for the purpose of O and M Expenses means the financial year immediately preceding the first year of the Control Period;
- 4) “**CERC**” means the Central Electricity Regulatory Commission established under Section 76 of the Act;
- 5) “**Commission**” means the Karnataka Electricity Regulatory Commission;
- 6) “**Conduct of Business Regulations**” means the Karnataka Electricity Regulatory Commission (General and Conduct of Proceedings) Regulations in force from time to time;
- 7) “**Consumer / user contributions**” means any contributions made by those using or intending to use the Transmission / Distribution network of a licensee. Any grant received by the Licensees would also be treated as Consumer / user contribution;
- 8) “**Control Period**” means a Multi-Year period comprising of three financial years commencing from FY25 or any other period as may be fixed by the Commission from time to time;

The existing 6th Control Period of three financial years from FY23 to FY25, notified vide Notification No. KERC/ B7/ 14/798/ Dt.23.09.2021, under the provisions of “**The KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006**” and “**The KERC (Terms and Conditions for Determination of Tariff for Transmission of Electricity) Regulations, 2006**” shall be deemed to have been revised to two financial years -FY23 to FY24;

- 9) “**Distribution / Wheeling Business**” means the business of operating and maintaining a distribution system for conveyance of electricity in the area of supply of the distribution licensee;
- 10) “**Financial Year (FY)**” means a period commencing on 1st April of a calendar year and ending on 31st March of the subsequent calendar year;
- 11) “**Grid Code**” means the State Grid Code as specified by the Commission under Section 86(1)(h) of the Act.
- 12) “**KER Act**” means the Karnataka Electricity Reform Act, 1999;
- 13) “**Licence**” means a licence granted under Section-14 of the Act for transmission, distribution, retail supply and trading of electricity in the area of supply of the Licensee;
- 14) “**Licensed Business**” means the functions and activities, which the licensee is required to undertake in terms of the licence granted by the Commission or being a deemed licensee under the Act;
- 15) “**Licensee**” means a person who has been granted a licence and shall include a deemed licensee;
- 16) “**Non-Tariff Income**” means income relating to the licensed business other than from tariff (transmission, wheeling and retail supply), and excluding any income from other business, cross-subsidy surcharge and additional surcharge;
- 17) “**Other Business**” means any other business of the transmission / distribution licensee for optimum utilisation of its assets within the meaning of Section 41 and 51 of the Act;
- 18) “**Open Access Customer**” means a consumer permitted by the Commission to receive supply of electricity from a person other than the Distribution Licensee of his area of supply, and the expression includes a

generating company and licensees, who have availed of or intends to avail of open access;

- 19) **'Prudence Check'** means the scrutiny of reasonableness and usefulness of capital investment incurred, financing plan, use of efficient technology, scope of work, cost and time over-run and such other factors as may be considered appropriate by the Commission;
- 20) **"Retail Supply Business"** means the business of sale of electricity by a distribution licensee to the consumers within the area of supply in accordance with the terms of the licence issued for distribution and retail supply of electricity;
- 21) **"State"** means the State of Karnataka;
- 22) **"STU"** means the State Transmission Utility as specified by the State Government under Sub-section (1) of Section 39 of the Act.
- 23) **"SLDC"** of "State Load Despatch Centre" means the centre established under Section 31 of the Act;
- 24) **"Tariff"** means a schedule of standard prices or charges for specified services which are applicable to all such specified services;
- 25) **"Transmission Business"** means the business of transmitting electricity within the State;
- 26) **"Wheeling"** means the operation whereby the distribution system and associated facilities of a distribution licensee are used by another person for the conveyance of electricity on payment of charges to be determined under, under section 42(2) or under section 62;

3.2 The words and expressions used and not defined in these Regulations, but defined in the Act, shall have the meanings respectively assigned to them in the Act;

3.3 The words "Application" or "Petition" and "Applicant" or "Petitioner" shall be interpreted synonymously;

PART-II GENERAL PRINCIPLES

4. Multi Year Tariff Framework:

4.1 The Commission shall determine the Tariff and Charges for matters covered under Regulation 2.1, under a Multi-Year Tariff framework for each of the Control Period commencing from FY25 onwards.

4.2 The Multi-Year Tariff framework shall be based on the following elements, for computation of Aggregate Revenue Requirement for Transmission Licensees, Distribution Wires Business, Retail Supply Business, and Charges of SLDC;

- (i) A Multi-Year Tariff Petition comprising the forecast of Aggregate Revenue Requirement, expected revenue from existing Tariff and Charges, expected revenue gap, and proposed Tariff and Charges for each year of the Control Period, shall be filed by the Licensee or SLDC;

Provided further that the performance parameters whose trajectories have been specified in these Regulations or in any other Regulations or Orders of the Commission shall form the basis of projection for the Aggregate Revenue Requirement for the entire Control Period;

- (ii) Determination of the Aggregate Revenue Requirement and Tariff and Charges for Transmission Licensees, Distribution Wires Business, Retail Supply Business, and SLDC by the Commission for each year of the Control Period, at the beginning of the Control Period;

Provided that the Commission shall also approve the sharing proportion amongst the Transmission System Users of the SLDC Charges for the Control Period;

- (iii) The mechanism for pass-through of approved gains or losses on account of uncontrollable factors as specified by the Commission in these Regulations;

- (iv) The mechanism for sharing of approved gains or losses arising out of controllable factors as specified by the Commission in these Regulations;

5. Petitions to be filed for the Control Period;

5.1 The Petitions to be filed by the licensee for the Control Period under these Regulations are as under;

5.2 Multi-Year Tariff Petition, along with Business Plan, complete in all aspects as per these Regulations, shall be filed for the Control Period within a period not less than 120 days i.e., within 30th November, before the commencement of the Control Period, by Transmission Licensees, Distribution Licensees and SLDC, in accordance with the KERC (General and Conduct of Proceedings) Regulations, 2000 accompanied by fee payable as specified in the KERC (Fee) Regulations, 2016;

Provided that, in case of a Deemed Distribution Licensee whose tariff is yet to be determined by the Commission till these Regulations come into effect, the Commission may relax the timelines for submission of the Multi-Year Tariff Petition and Business Plan, in case such specific relaxation is sought by such Deemed Distribution Licensee;

Provided further that such Deemed Distribution Licensee may be permitted to first file a Petition for approval of a ceiling or provisional tariff in its area of supply, followed by a Petition for approval of Power Purchase Agreement or arrangement, after which the Multi-Year Tariff Petition may be filed;

5.3 Annual Performance Review (Truing-up) Petition for each completed financial year of the Control Period, based on the audited annual accounts, before 30th November of the subsequent financial year;

5.4 The Petitioner shall submit separate audited Accounting Statements for Distribution Wires Business and Retail Supply Business, along with the Petition for determination of Tariff / Charges and Annual Performance Review (Truing-up) under these Regulations;

Provided that, in case complete accounting segregation has not been done between the Distribution Wires Business and Retail Supply Business of a Distribution Licensee, its Aggregate Revenue Requirement shall be apportioned between the Distribution Wires Business and Retail Supply Business in

accordance with the Matrix proposed by the licensees or matrix as may be considered reasonable by the Commission;

6. **Specific Trajectory for certain variables:**

- 6.1 The Commission shall approve a trajectory while approving the Business Plan, for each year of the Control Period, for certain variables which include, but not limited to, Transmission Losses, Distribution losses, AT&C losses, supply availability and wires availability (SAIFI and SAIDI), billing efficiency and collection efficiency;
- 6.2 The trajectories approved by the Commission shall form the basis for approval of the forecast of Aggregate Revenue Requirement and also for Annual Performance Review (true-up) of the Aggregate Revenue Requirement;
- 6.3 The Commission shall specify the yearly transmission / distribution / wheeling / AT&C loss reduction trajectory for the control period with upper, average and lower limits. The approved yearly transmission / distribution / AT&C loss trajectory for the control period shall not be changed / modified, except under exceptional conditions;

7. **Uncontrollable and Controllable factors:**

- 7.1 Uncontrollable Factors: The "uncontrollable factors" shall comprise of the following, which are beyond the control of, and could not be mitigated by the applicant;
- (a) Variation in the cost of power generation and/or power purchase;
- (b) Variation in sales;
- (c) Inter-State Transmission losses and
- (d) Force Majeure events, such as war, fire, natural calamities etc.;
- (e) Change in law;
- (f) Taxes and Duties;
- 7.2 Controllable Factors: Some illustrative variations or expected variations in the performance of the applicant, which may be attributed by the Commission to controllable factors include, but are not limited to the following:

- (a) Operation and maintenance expenses, except those attributable to directions of the Commission.
- (b) Interest and Finance Charges;
- (c) Depreciation;
- (d) Capital expenditure on account of time and/or cost overruns/ inefficiencies in the implementation of a capital expenditure project not attributable to an approved change in scope of such project, change in statutory levies or force majeure events;
- (e) Aggregate Technical and Commercial (AT&C) losses which shall be measured as the difference between the units input into the distribution system and the units realized (units billed and collected) wherein the units realized shall be equal to the product of units billed and collection efficiency (where Collection Efficiency shall be measured as ratio of total revenue realized to the total revenue billed for the same year);
- Detailed methodology for computation of AT&C loss has been indicated at **Annexure - I** to these Regulations;
- (f) Transmission Losses, Distribution Losses and AT&C Losses;
- (g) Return on Equity (RoE);
- (h) Transmission System Availability, Wires Availability and Supply Availability (SAIFI and SAIDI);

8. **Mechanism for pass through of gains or losses on account of controllable and uncontrollable factors:**

The scope of the annual performance review shall be a comparison of the performance of the Licensee with the approved forecast of ARR and actual expenses. Upon completion of annual performance review, the Commission shall pass an order recording:

- (a) Any financial loss or gain on account of variation in power purchase cost either on account of change in hydro-thermal mix or other uncontrollable factors and the mechanism by which the licensee shall pass through such gains or losses.

- (b) The approved aggregate gain or loss to the Licensee on account of other Uncontrollable factors and the mechanism by which the Licensee shall pass through such gains or losses.
- (c) The approved aggregate gain or loss to the Licensee on account of Controllable factors and the mechanism to share such gains or losses.
- (d) The approved modifications to the forecast for the remainder period of the Control period, if any.

9. **Business Plan:**

9.1 In respect of transmission licensee, the Business Plan, for each year of the Control Period, shall comprise of, but not limited to, the following, in adherence of the guidelines / norms provided in these Regulations;

- (i) Load Forecast and Capital Investment Plan in consistent with the CEA guidelines or as may be approved by the Commission from time to time;
- (ii) Targets for transmission loss reduction, system availability duly indicating upper, average and lower limits;
- (iii) Aggregate Revenue Requirement indicating anticipated expenses;
- (iv) Expected Revenue from existing tariff;
- (v) Expected Revenue gap / surplus;
- (vi) Proposed Tariff and Charges;

Provided that in case the Commission issues guidelines and prescribes formats from time to time, the same shall be adhered to by the transmission licensee;

9.2 In respect of distribution licensee, the Business Plan, for each year of the Control Period, shall comprise of, but not limited to, the following, in adherence of the guidelines / norms provided in these Regulations;

- (i) Detailed category-wise sales and demand projections;
- (ii) Power Procurement Plan indicating the source-wise procurement of energy and the costs thereof;
- (iii) Capital Investment plan and sources of funds; Physical and financial targets;

- (iv) Targets for distribution / AT&C loss reduction, supply and system availability (SAIFI and SAIDI), billing efficiency and collection efficiency, duly indicating upper, average and lower limits;
- (v) Aggregate Revenue Requirement indicating anticipated expenses;
- (vi) Expected Revenue from existing tariff;
- (vii) Expected Revenue gap / surplus;
- (viii) Proposed Tariff and Charges; including wheeling charges, cross subsidy surcharge, additional surcharge, etc., for open access transactions;
- (ix) Policy of the Government for providing subsidy to any of the categories of consumers and extent of subsidy committed by the Government;

Provided that in case the Commission issues guidelines and prescribes formats from time to time, the same shall be adhered to by the Distribution Licensee;

- 9.3 The capital investment plan shall show separately, the spill over projects / works and new projects (along with justification). The Commission shall consider and approve the capital investment plan for which the licensee shall provide relevant technical and commercial details;
- 9.4 The Commission shall not consider to approve the Capex beyond the limit approved in the relevant tariff orders;

PART-III

PROCEDURE FOR DETERMINATION OF TARIFF

10. Filing of Petition for determination of Tariff

- 10.1 A Petition for determination of Tariff shall be filed in such form and in such manner as specified in these Regulations, and be accompanied by applicable fees;

Provided that the Commission may issue a general or special order requiring the licensees for on-line filing of the petition for determination of tariff and the applicable procedure thereon;

- 10.2 The proceedings for determination of Tariff shall be held by the Commission in accordance with the Regulations governing its Conduct of Business;

- 10.3 Notwithstanding anything contained in these Regulations, the Commission shall have the authority, either suo motu or on a Petition filed by the Licensee or SLDC, to determine its Tariff and Charges, including terms and conditions thereof;
11. **Determination of Tariff and Charges for Transmission, Distribution Wires Business, Retail Supply Business, and SLDC:**
- 11.1 The Commission shall determine the Aggregate Revenue Requirement and Tariff for Transmission Licensees, Distribution Wires Business, Retail Supply Business, and Charges for SLDC, upon consideration of a Petition filed by the Licensee or SLDC, as the case may be, in accordance with the procedure contained in these Regulations;
- 11.2 The Commission shall determine the Tariff for -
- (a) Transmission of electricity, in accordance with the terms and conditions contained in Part VI of these Regulations;
 - (b) SLDC, in accordance with the terms and conditions contained in Part VII of these Regulations;
 - (c) Distribution Wires Business, in accordance with the terms and conditions contained in Part VIII of these Regulations;
 - (d) Retail Supply Business, in accordance with the terms and conditions contained in Part VIII of these Regulations; and

Provided that the Petition shall be accompanied, where relevant, by a detailed Tariff revision proposal showing category-wise Tariffs and how such revision would meet the gap, if any, in Aggregate Revenue Requirement for each year of the Control Period;

Provided further that the Petitioner shall provide the details of calculations and other related information in the formats prescribed by the Commission from time to time and shall be provided for each financial year.

Provided also that the Commission, whenever necessary, may conduct a Technical Validation Session prior to admission of the Petition;

- 11.3 The Petitioner shall, along with the aforesaid petition, submit a statement on the status of compliance of directives, issued by the Commission in its previous tariff order;
- 11.4 The Petitioner shall also include the Annual Performance Review (true-up) petition, based on the audited accounts, for the previous year;
- 11.5 The Commission may seek clarifications and additional information on inadequacies in the application, if any, within 15 (fifteen) working days of filing the application by the Petitioner. The Petitioner shall furnish clarifications/ additional information within the next 10 (ten) days to the Commission;
- 11.6 Within 7 (seven) days of the receipt of replies/ clarifications from the Petitioner, the Commission shall treat the Application as a petition;
- 11.7 The Commission shall ensure the information in the application is complete with the requisite information and submission of documents in compliance with all the requirements specified in these Regulations. Thereafter, the Commission or the Secretary or the any of the designated Officers shall communicate to the Petitioner to publish the summary of application giving the details of ARR and the proposed tariff increase;

For the purpose of this Regulation, 'Complete Application' means the application complete in all respect in the appropriate form, as required by the Commission, along with documents showing payment of necessary fees and other compliances;

- 11.8 Upon receipt of communications from Commission, the Petitioner shall, within 5 (five) days publish a notice in at least 2 (two) English and 2 (two) Kannada language daily newspapers widely circulated in the area, to which the application pertains, outlining the proposals in the petition and such other matters as may be stipulated by the Commission;

The public notice shall invite interested persons to file their objections and such documents as they seek to rely upon, supported by an Affidavit, in six copies, within 30 days from the date of public notice in the newspapers and also indicate whether they would like to be heard in person by the Commission;

The Petitioner shall also specify in the public notice that interested persons may inspect the copies of the petition at specified offices of the Petitioner during normal working hours within 10 working days of the publication of the notice and also obtain the salient feature of the petition at such specified place on payment of cost of photocopying;

The Petitioner shall also mention in the public notice that the hard copy of full set of the application together with supporting materials would be made available to any interested person who may ask for it on payment of cost of photocopying (cost of hard copy and the locations where such hard copies are available may be mentioned in the public notice itself);

- 11.9 The Petitioner shall also host on its website, downloadable spreadsheet formats which are showing detailed computations, the application made to the Commission along with all regulatory filings, information and documents in the manner stipulated by the Commission. The web link to the information shall also be mentioned for easy access, enabling downloading and shall be prominently displayed on the applicant's website. However, the Petitioner may not provide or put up any such information, particulars or documents, which are confidential in nature, without prior approval of the Commission;

Explanation - for the purpose of these Regulation, the term "downloadable spreadsheet format" shall mean one (or multiple, linked) spreadsheet software files containing all assumptions, formulae, calculations, software macros and outputs forming the basis of the application;

- 11.10 Notwithstanding anything contained in these Regulations, in case of delay/ non-submission of the application / Business Plan for determination of tariff, as the case may be, the Commission may initiate suo-motu proceedings for the

determination of Tariff by 10th December and complete the proceedings within the end of March of the succeeding financial year;

Provided that in the event of the licensee not filing the application despite the aforesaid proceeding, the Commission may on its own, decide the tariff based on previous year's tariff details and after incorporating suitable adjustments;

Provided further that in such cases the Commission may also pass directions under Section 129 and/or Section 142 of the Act, if required;

- 11.11 The Petitioner shall furnish to the Commission all such books and records (or certified true copies thereof), including the Accounting Statements, operational and cost data, as may be required by it for determination of Tariff;

12. Commission's Powers for verification:

- 12.1 The Commission may get the books and records of the utilities concerned examined by its officers and/or by any authorized person at any point of time during the pendency of the petition or otherwise. The report of the officers/consultants shall be made available to the parties concerned and they shall be given opportunity to react on the reports. The Commission shall duly take into account the report or the opinion/ reaction given by parties and/or by any authorized person and the reply filed by the parties while deciding the matter.
- 12.2 The Commission may direct the Licensee to submit such performance-related data as it may stipulate, with the Petitions to be filed under these Regulations;
- 12.3 The utilities shall submit periodic returns as may be prescribed containing operational and cost data to enable the Commission to monitor the implementation of its order and reassess the bases on which Tariff was approved;
- 12.4 Filings of all the applications shall be in conformity with the stipulations as per the Licensing Regulations and the Conditions of the Licence;

13. Order approving Tariff:

13.1 The Commission shall, within one hundred and twenty days from receipt of a complete Petition, and after considering all suggestions and objections received from the public;

(a) issue a Tariff Order based on the Petition with such modifications or conditions as may be stipulated in the Order;

(b) reject the Petition for reasons to be recorded in writing if such Petition is not in accordance with the provisions of the Act and the rules and Regulations made thereunder or any other provisions of law, after giving the Petitioner a reasonable opportunity of being heard;

13.2 The Petitioner, within a week of issue of the Tariff Order, shall publish the tariff approved by the Commission in 2 (two) English and 2 (two) Kannada language daily newspapers having wide circulation in the area of supply and shall host the approved tariff / tariff schedule on its website and make available for sale, a booklet containing such tariffs, for sale to any person on payment of reasonable charges;

13.3 The tariff so published shall be in force from the date specified in the said Order and shall, unless amended or revised, continue to be in force until the issue of next Tariff Order;

14. Order on petition for Annual Performance Review (True-up):

(a) Where the Aggregate Revenue Requirement and expected revenue from tariff / charges of a Licensee are covered under a Multi-Year Tariff framework, such Licensee shall be subject to Annual Performance Review (true-up);

(b) The Commission shall True-up the expenses either as part of the Tariff Order or issue Order/s for True-up of expenses preceding the Tariff order of ensuing year;

(c) An Order for Annual Performance Review (True-up) of expenses shall be issued on annual basis;

(d) An Order for Annual Performance Review (True-up) of expenses shall be on the basis of estimates of expense approved by the Commission, in the ARR for

each year of the Control Period and actual expenses accounted in the audited books of account of the Distribution Licensee for the year, duly adjusting the expenses to the extent of trajectories / norms prescribed in these Regulations;

Provided that in case the trued-up expenses as per APR for the year exceed 5% of the ARR approve in the Multi Year Tariff Order, the Commission, as may be considered necessary, shall proceed to approve the revised ARR and may authorise the Distribution / Transmission licensees to recover the gap/ difference in the manner to be prescribed by the Commission in the APR (Trueing-up) order;

Provided also that where the trued-up expenses for the year does not exceed 5% of the ARR approved in the Multi Year Tariff Order, the Commission, as may be considered necessary, shall carry forward such variation to the next Control Period duly allowing carrying cost at the rates equal to MCLR of one-year tenor, allowed by State Bank of India;

15. The Licensee shall submit periodic returns as may be required by the Commission, containing operational and financial cost data to enable the Commission to monitor the implementation of its Order;

PART-IV

SALES, POWER PURCHASE QUANTUM AND COST

16. **Applicability:**

- 16.1 The Regulations contained in this Part shall apply to a Distribution Licensee for the purpose of sales forecast, power procurement from a Generating Company or Trading Licensee or Distribution Licensee or from any other source through agreement or arrangement, for distribution and supply within the State;

17. **Sales forecast:**

17.1 Forecasting methodology:

- (1) The Licensee shall submit a month-wise forecast of the expected sales of electricity to each Tariff category/sub-category and to each Tariff slab

within such Tariff category/sub-category to the Commission for each year of the Control period;

Provided that the Licensee shall submit relevant details regarding category-wise sales separately for each Distribution Franchisee area within its License area, as well as the aggregated category-wise sales in its License area;

- (2) The sales forecast shall be consistent with the load forecast prepared as part of the power procurement plan under Regulation 19 of these Regulations and shall be based on past data and reasonable assumptions regarding the future;

Provided that where the Commission has stipulated a methodology for forecasting sales to any particular Tariff category, the Licensee shall incorporate such a methodology in developing the sales forecast for such Tariff category;

Provided that open access transactions shall not form part of Sales;

18. Treatment of Distribution Losses:

- 18.1 The power purchase requirement of the Licensee at the Transmission-Distribution interface point, shall be computed by grossing up the sales with the distribution losses approved by the Commission;

Provided that the Commission may stipulate the target distribution losses as part of the Order on the Business Plan;

Provided further that the Licensee shall submit the details of area-wise distribution losses for the relevant years, in accordance with the formats prescribed by the Commission;

Provided also that the area-wise distribution losses shall separately indicate the distribution losses in each Distribution Franchisee area within its License area, for the relevant years;

19. Power Procurement Planning:

- 19.1 The Distribution Licensee shall prepare a plan for procurement of power (in MW/MU) to serve the demand for electricity in its area of supply as a part of Business Plan for the Control Period in accordance with Regulation 10 of these Regulations and Resource Adequacy Guidelines issued by CEA / Regulations issued by the Commission on Resource Adequacy;

Provided further that such power procurement plan may include long term (more than 5 years), medium-term (upto 5 years) and short-term (upto 1 year) sources of power procurement.

- 19.2 The power procurement plan of the Licensee shall comprise of the following:

- (i) A quantitative forecast of the unrestricted base load and peak load for electricity within its area of supply;
- (ii) An estimate of the quantity of electricity supply from the identified sources of power purchase, including own generation if any;
- (iii) An estimate of availability of power to meet the base load and peak load requirement:

Provided that such estimate of demand and supply shall be on month-wise basis in Mega-Watt (MW) as well as expressed in Million Units (MU);

- (iv) Standards to be maintained with regard to quality and reliability of supply, in accordance with the relevant orders / regulations of the Commission;
- (v) Measures proposed for implementing Renewable Purchase Obligation (RPO), energy conservation, energy efficiency, and Demand Side Management;
- (vi) The requirement for new sources of power procurement, including augmentation of own generation capacity, if any, and identified new sources of supply, based on (i) to (v) above;

(vii) The impact of Open Access on load;

(viii) The sources of power, quantities and cost estimates for such procurement;

(ix) Impact of Storage capacities including Batteries, Electric Vehicle charging stations etc;

Provided that the forecast or estimates contained in the long-term procurement plan shall be separately stated for peak and off-peak periods, in terms of quantity of power to be procured (in MU) and maximum demand (in MW);

Provided further that the forecast or estimates for the Control Period shall be prepared for each month over the Control Period;

Provided also that the medium-term / short term procurement plan shall be on a least cost plan based on available information regarding costs of various sources of supply;

19.3 The forecast or estimate shall be prepared using forecasting techniques based on past data and reasonable assumptions regarding the future;

Provided that the forecast or estimate shall take into account factors such as overall economic growth, consumption growth of electricity-intensive sectors, advent of competition in the electricity sector, trends in captive power, impact of loss reduction initiatives, improvement in Generating Station Plant Load Factors and other relevant factors;

19.4 Where the Commission has specified a percentage of the total consumption of electricity in the area of a Licensee to be purchased from co-generation or renewable sources of energy, the power procurement plan shall include the plan for procurement from such sources upto the specified level;

- 19.5 The Licensee shall forward a copy of its power procurement plan to the State Transmission Utility for verification of its consistency with the transmission system plan for the intra-State Transmission System, prepared in accordance with the Regulations of the Commission governing Transmission Open Access;
- Provided that the Licensee shall also consult the State Transmission Utility at the time of preparation of the power procurement plan, to ensure consistency of such plan with the transmission system plan;
- 19.6 The Commission shall approve the power procurement plan for the Control Period as part of its Order on the MYT Petition;
- 19.7 The Commission may, as a result of additional information not previously known or available to the Commission at the time of approval of the procurement plan under Regulation 12, if it deems appropriate, suo - motu or on a Petition filed by the Distribution Licensee, modify the procurement plan of the Distribution Licensee for the remainder of the Control Period;
20. **Power Purchase Quantum and Cost:**
- 20.1 Based on the power procurement plan, the power purchase quantum and cost shall be calculated;
- 20.2 The approved Power Purchase cost shall be net of expected revenue from sale of surplus power, if any, during lean period;
- 20.3 Revenue from sale of surplus power shall be estimated at per unit weighted average price of bilateral purchases and power exchange rates for the last available three months at the time of finalization of the ARR for the ensuring year;
21. **Fuel and Power Purchase Cost Adjustment (FPPCA):**
- Fuel and Power Purchase Cost Adjustment shall be governed as per the Karnataka Electricity Regulatory Commission (Fuel and Power Purchase Cost) Adjustment, Regulations, 2022 and amendments from time to time thereof;

PART-V FINANCIAL PRINCIPLES

22. **Financial Prudence:**

22.1 The Licensee and the SLDC shall manage its finances in an optimum and prudent manner;

22.2 In determining the Aggregate Revenue Requirement and Tariff of the Licensee or SLDC, the Commission shall assess the financial prudence exercised with regard to the following factors;

(a) revenue;

(b) revenue expenditure;

(c) capital expenditure:

Provided that the Commission may disallow a part of the Aggregate Revenue Requirement, as an efficiency measure, if it finds the exercise of such prudence to have been deficient;

23. The financial prudence with respect to revenue shall be assessed in terms of the following parameters;

(i) whether category-wise sales projections are based on realistic estimates, and adequate justification has been provided for any anomalous increase in sales projected by the Distribution Licensee;

(ii) whether projected generation is based on realistic estimates, and adequate justification has been provided for any anomalous increase in generation projected by the Generating Company;

(iii) billing efficiency measured as a percentage of the units billed by the Licensee to the total units injected into the transmission or distribution system, as the case may be;

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- (iv) collection efficiency measured as a percentage of the amount collected by the Licensee to the total amount billed;
- (v) reduction in arrears receivable from consumers;
- (vi) percentage of metered consumers and metered consumption out of the total;
- (vii) percentage of bills raised on the basis of assessed consumption out of the total number of bills raised by the Distribution Licensee;
- (viii) whether revenue collected is in line with the projections made in the Petition and approved by the Commission;
24. The financial prudence with respect to revenue expenditure shall be assessed in terms of the following parameters;
- (a) monitoring of the revenue expenditure as against the revenue earned, such that the expenses and payment obligations of the Licensee to other entities are met in a timely manner;
- (b) mechanism put in place for monitoring adherence to the approved revenue expenditure, including schedule of interest payments for long-term loans and working capital;
- (c) transparent method of power procurement, with the objective of optimising the power purchase expenses;
- (d) optimum purchase of power considering factors such as requirement of power, Merit Order Despatch, potential for earning additional net revenue based on the differential between the rate for purchase of power from different sources and the market rate for sale of surplus power, if any:

Provided that, in case the excess of revenue expenditure over the revenue earned exceeds 5%, the Licensee shall submit detailed justification for the mismatch along with its Petition for Annual Performance Review (True-up),

including a comparison of the revenue expenditure and revenue estimated in the Petition with the amounts approved by the Commission and with the actual amount of revenue expenditure and revenue, under key heads;

Provided further that the Licensee shall submit a detailed cash flow statement for the respective Business showing the various sources of revenue, the actual amount of cash collected against the amount billed to different consumer categories for sale of electricity, the comparison of the actual revenue expenditure and capital expenditure with the projected and approved revenue expenditure and capital expenditure;

Provided also that, in case its payment obligations to other entities are not regularly met, the Licensee shall provide justification for such shortfall with reference to its cash flow statement;

Provided also that the Licensee shall submit the Cost Audit Report along with the Annual Performance Review (true-up) Petition to justify the revenue expenses incurred as well as inventory management policies;

25. The financial prudence with respect to capital expenditure shall be assessed in terms of the following parameters:

(a) whether projected capital expenditure and capitalisation is based on realistic estimates, and adequate justification has been provided for any anomalous increase in capital expenditure and capitalisation projected by the Licensee;

(b) mechanism put in place for monitoring the physical progress of projects with respect to their original schedule;

(c) optimum drawal of loans in accordance with the physical progress of the capital expenditure schemes, and efficient utilisation of such loans;

- (d) in case the actual capital expenditure or capitalisation exceeds 10% of that approved by the Commission, the Licensee shall submit detailed justification for such excess along with its Petition for Annual Performance Review (True-up);
- (e) in case any scheme has not been commenced during the year despite the Commission's approval, detailed justification shall be submitted along with the Petition for Annual Performance Review (True-up);

26. Consumer Contribution, Deposit Work, Grant and Capital Subsidy:

- 26.1 The expenses on the following categories of works carried out by the Licensee or SLDC shall be treated as specified in Regulation 26.2;
- (a) Works undertaken from funds, partly or fully, provided by the users, which are in the nature of deposit works or consumer contribution works;
- (b) Capital works undertaken with grants or capital subsidy received from the State and Central Governments;
- (c) Other works undertaken with funding received without any obligation of repayment and with no interest costs;
- 26.2 The expenses on such capital works shall be treated as follows: -
- (a) normative O and M expenses as specified in these Regulations shall be allowed;
- (b) the debt-equity ratio, shall be considered in accordance with Regulation 27;
- (c) provisions related to depreciation, as specified in Regulation 28, shall not be applicable to the extent of such financial support received;
- (d) provisions related to return on equity, as specified in Regulation 29 shall not be applicable to the extent of such financial support received;
- (e) provisions related to interest on loan capital, as specified in Regulation 30 shall not be applicable to the extent of such financial support received;

27. Debt-equity ratio:

27.1 For the purpose of computation of Aggregate Revenue Requirement for financing of projects under capital expenditure, a Debt: Equity ratio of 70: 30 shall be adopted. The Licensee or SLDC shall be free to have higher quantum of equity investments. The equity in excess of this norm shall be treated as loan;

Provided that for the purpose of Annual Performance Review (truing up), debt equity ratio shall be limited to 70: 30 of the gross capital assets at the end of the financial year. The equity in excess of this norm shall be treated as loan;

28. Depreciation:

28.1 Depreciation for the purpose of ARR shall be computed over the useful life of the assets based on its average value of gross assets at the beginning and closing period of the financial year for which ARR is being determined;

Provided that for the purpose of Annual Performance Review (true-up), depreciation shall be chargeable from the first year of commissioning of asset. In case the asset is commissioned during the financial year and the details thereof are furnished by the licensee, the depreciation shall be charged on pro rata basis for completed months;

28.2 Depreciation shall not be allowed on the following;

- (a) Capital works undertaken from funds, partly or fully, provided by the users, which are in the nature of deposit works or consumer contribution works;
- (b) Capital works undertaken with grants or capital subsidy received from the State and Central Governments;
- (c) Other works undertaken with funding received without any obligation of repayment and with no interest costs;

28.3 The Commission shall consider the depreciation in the following manner;

- (a) The value base for the purpose of depreciation shall be the historical cost of the asset;
- (b) Depreciation shall be calculated annually (both for the purpose of determination of tariff as well as accounting) based on straight line method over the useful life of the asset and at the rates specified in the CERC Guidelines / Notifications issued from time to time;

- (c) The residual life of the asset shall be considered as 10% and depreciation shall be allowed up to a maximum of 90% of the historical capital cost of the asset. Land is not a depreciable asset and its cost shall be excluded from the capital cost while computing 90% of the historical cost of the asset;

29. **Return on Equity:**

- (a) Return on Equity shall be computed on 30% of the capital base/ Gross Fixed Assets (GFA) at the beginning of the financial year, excluding assets created out of consumer contribution / grants, or actual equity, whichever is lower;

Provided that assets funded as mentioned in Regulation 26.1 shall not form part of the capital base. Actual equity infused by the Distribution Licensee, as per book value, shall be considered as perpetual and shall be used for computation in this Regulation;

- (b) Transmission and Distribution Licensees shall be allowed ROE at the rate of 14% and 15.5% per annum respectively, grossed up with applicable MAT (Minimum Alternative Tax);

Note: For the purpose of return on equity, any cash resources available to the Licensee from its share premium account or from its internal resourced that are used to fund the equity commitments of the project under consideration shall be treated as equity subject to limitation contained in clause (a) above.

- (c) While allowing ROE during the APR, equity infusion, if any, during the financial year shall be considered from the date of infusion of such additional equity for the completed months on prorata basis;

30. **Interest on Capital loans:**

- (i) The loan outstanding as at the beginning of each financial year of the control period shall be worked out as the gross loan including the amount of current maturities of long term debts minus cumulative repayment as admitted by the Commission upto the end of the previous Financial Year. The repayment for the control period shall be worked out on normative basis.

- (ii) The interest on the existing loan balance for each financial year of the control period shall be computed on the basis of the average loan. The rate of interest shall be the weighted average rate of interest incurred (on long term

loans) by the licensee in the base year or the latest year for which the audited accounts are available.

- (iii) For the purpose of approval of ARR the interest on new loans proposed for each financial year of the control period shall be allowed based on the latest available SBI MCLR rates for long-term borrowings for above 3 years plus 200 basis points or the weighted average rate of interest proposed by the licensee, whichever is less;

Provided that for the purpose of allowing interest on loans during APR, the rate of interest shall be the weighted average rate of interest incurred by the licensee.

31. **Interest on Working Capital:**

The Licensee shall be allowed interest on estimated level of working capital for each financial year of the Control Period, computed as follows;

- (a) Operation and maintenance expenses for one month;
- (b) Maintenance spares @ 1% of the historical cost of assets at the beginning of the year and
- (c) Receivables equivalent to two month's average revenue;
Less:
- (d) Security deposits from consumers / transmission system users, if any;

Provided that for the purpose of approval of ARR, the interest on working capital shall be on normative basis and the rate of interest shall be the latest available SBI MCLR rates or any other rate as may be notified by competent authorities, for short-term borrowings for one-year tenor plus 250 basis points or the weighted average rate of interest on working capital proposed by the licensee, whichever is less;

Provided further that, during the APR, if the actual expenditure exceeds the normative amounts as calculated above, the total amount of allowable interest on working capital shall be limited to the amount as calculated on normative basis.

Provided further that during the APR, if the actual expenditure is less than the normative amount as calculated above, the allowable

interest on working capital shall be limited to the actual expenditure plus fifty percent of the difference between the actual expenditure and the amount as calculated on normative basis.

32. **Income Tax:**

- (a) Taxes on Income, if any, on the income stream of the licensed business of the Licensee shall be treated as an expense and shall be recoverable through ARR/tariff;
- (b) Tax on any income stream other than the licensed business shall not constitute a pass through component in tariff and tax on such other income shall be payable by the Licensee;
- (c) The Income Tax for the purpose of Aggregate Revenue Requirement shall be computed on the allowable Return on Equity computed as per Regulation 29 of these Regulations by grossing up with allowable Minimum Alternative Tax (MAT) or applicable income tax as determined by the Government of India from time to time;
- (d) For Annual Performance Review (truing up), the allowable Income Tax shall be based on the actual income tax incurred by the Licensee, limited to the applicable rate of income tax / MAT on the RoE allowed for the financial year as per the audited accounts, duly considering the excess or short payment of tax for the previous years;

PART-VI TRANSMISSION

33. **Applicability:**

- 33.1 The Regulations contained in this Part shall apply to the determination of Tariff for access and use of the Intra-State Transmission System (InSTS) pursuant to a Bulk Power Transmission Agreement or other arrangement entered into with a Transmission System User;

- 33.2 The Commission shall be guided by the terms and conditions contained in this Part in specifying the rates, charges, terms and conditions for use of intervening transmission facilities pursuant to a Petition filed in this regard by a Transmission Licensee under the proviso to Section 36 (1) of the Act;
- 33.3 Any person who is eligible to apply for access to the intra-State transmission system shall be entitled to obtain such access in accordance with the Regulations of the Commission governing Open Access and shall be liable to pay the charges for obtaining such access as specified in these Regulations;
- 33.4 The Annual Transmission Charges for each Year of the Control Period shall provide for the recovery of the Aggregate Revenue Requirement of the Transmission Licensee for the respective Year of the Control Period, as approved by the Commission and comprising the following components:
- (a) Capital Investment Plan;
 - (b) Operation and Maintenance expenses with break-up into:
 - i. Employee Cost;
 - ii. Repairs and Maintenance Expenses;
 - iii. General and Administration Expenses;
 - (c) Depreciation;
 - (d) Interest on Capital Loan;
 - (e) Interest on Working Capital;
 - (f) Return on Equity;
 - (g) Income Tax;
 - (h) Other Expenses
- minus**
- (i) Income from Open Access charges;
 - (j) Non-Tariff income;
 - (k) Income from Other Business, to the extent specified in these Regulations:

Provided that Depreciation, Interest on CAPEX Loan, Interest on working capital and deposits from Transmission System Users, Debt-Equity ratio, Return on Equity, and Income Tax for Transmission Licensees shall be allowed in accordance with the provisions specified in Part V of these Regulations;

Provided further that the components of the Aggregate Revenue Requirement corresponding to the transmission lines owned by Karnataka State Transmission Licensee and conveying electricity to other States (intervening transmission lines), being recovered through the sharing of transmission charges in accordance with the Regulations and Orders of the Central Electricity Regulatory Commission, shall not be recovered from the Annual Transmission Charges determined under these Regulations;

Provided also that in case any such components have already been recovered through the intra-State transmission tariff, such excess recovery shall be deducted from the Aggregate Revenue Requirement of Karnataka State Transmission Licensee for the future years, along with associated;

Provided also that prior period income/expenses and other debits shall be allowed by the Commission at the time of Annual Performance Review (truing up) based on actuals as per audited accounts, on a case to case basis;

Provided that all penalties and compensation payable by the Licensee to any party for failure to meet any Standards of Performance or for damages, as a consequence of the orders of the Commission, Courts, etc., shall not be allowed to be recovered through the Aggregate Revenue Requirement;

Provided also that the Transmission Licensee shall maintain separate details of such penalties and compensation paid or payable by the Licensee, if any, and shall submit them to the Commission along with its Petition;

33.5 The Annual Transmission Charges of the Transmission Licensee shall be determined by the Commission on the basis of a Petition for determination of Aggregate Revenue Requirement, filed by the Transmission Licensee in accordance with Part III of these Regulations, or Petition for adoption of Annual Transmission Charges in case of competitively awarded transmission system Project, as the case may be;

Provided that the intra-state transmission projects shall be developed by the State Transmission Utility through competitive bidding process for projects

costing above a threshold limit which shall be notified by the Commission from time to time;

34. Capital Investment Plan:

- 34.1 The Transmission Licensee shall submit a detailed capital investment plan, financing plan and physical targets for each year of the Control Period for strengthening and augmentation of the intra-State transmission system of the Transmission Licensee, meeting the requirement of load growth, improvement in quality of supply, reliability, metering, reduction in congestion, etc., to the Commission for approval, as a part of the Multi-year Aggregate Revenue Requirement for the entire Control Period;
- 34.2 The Capital Investment Plan shall be a least cost plan for undertaking investments and shall cover all capital expenditure projects;
- 34.3 The Capital Investment Plan shall be accompanied by such information, particulars and documents as may be required including but not limited to the information such as number of bays, name, configuration and location of grid substations, substation capacity (MVA), transmission line length (circuit kilometres) showing the need for the proposed investments, alternatives considered, cost-benefit analysis and other aspects that may have a bearing on the transmission charges;
- 34.4 The Capital Investment Plan of the Transmission Licensee shall be consistent with the transmission system plan for the intra-State transmission system developed by the State Transmission Utility bearing in mind the transmission system plan for the inter-State transmission system developed by the Central Transmission Utility;
- Provided that any capital expenditure incurred by the Transmission Licensee based on the specific requirement of a Generating Company or Distribution Licensee shall be substantiated with necessary documentary evidence in the form of request for the same and undertaking;
- 34.5 The Commission shall consider the Capital Investment Plan along with the Multi-Year Aggregate Revenue Requirement for the entire Control Period submitted by the Transmission Licensee taking into consideration the prudence of the proposed expenditure and estimated impact on transmission charges;

34.6 The Transmission Licensee shall submit, along with the Petition for determination of Aggregate Revenue Requirement details showing the progress of capital expenditure projects, together with such other information, particulars or documents as the Commission may require to assess such progress;

34.7 The Commission shall approve the capex plan of the licensee, for each year of the Control Period, for determination of the ARR / Tariff;

Provided that the maximum capex (to be termed as 'ceiling capex amount' which shall include interest capitalized) that shall be allowed in the ARR for determination of tariff, for each financial year, shall not exceed the average of capex incurred during the three previous years of the Control Period;

Provided further that, in order to regulate the spill over works, the Commission shall proportionately reduce the proposed / ceiling capex amount to the extent of ratio of amount involved in the spill over works to the 'ceiling capex amount';

For example:

Control Period = FY25 to FY27

Capex proposed by the Licensee = Rs.3000 Crores, Rs.3500 Crores, Rs.4000 Crores, respectively for each year of the Control Period.

'ceiling capex amount' = Rs.2500 Crores.

Spill over works as at 31.03.2024 = Rs.500 Crores.

Allowable capex for each year =

For the 1st Year of the Control Period

$$\text{Rs.3000 Cr} - \frac{\text{Rs.500 Cr}}{\text{Rs.2500 Cr}} \times \text{Rs.3000 Cr} = \text{Rs.2400 Crores}$$

For the 2nd Year of the Control Period

$$\text{Rs.3500 Cr} - \frac{\text{Rs.500 Cr}}{\text{Rs.2500 Cr}} \times \text{Rs.3500 Cr} = \text{Rs.2800 Cr}$$

subject to ceiling of Rs.2500 Cr

For the 3rd Year of the Control Period

$$\text{Rs.4000 Cr} - \frac{\text{Rs.500 Cr}}{\text{Rs.2500 Cr}} \times \text{Rs.4000 Cr} = \text{Rs.3200 Cr}$$

subject to ceiling of Rs.2500 Cr

Any Capital Expenditure incurred by the Transmission licensee in excess of the approved Capital Expenditure for the relevant financial year shall not be allowed in tariff.

Provided also that the Commission shall undertake prudence check of the actual investments made towards the capex, as per Regulation 25 of these Regulations, for each year of the Control Period, to ascertain the achievement of stated benefits or system parameters and the reasonableness of the capital investment in accordance with the guidelines and directions issued by the Commission from time to time;

34.8 The Licensee shall submit, along with the Petition for Annual Performance Review (truing-up), the details showing the progress of capital expenditure projects, together with such other information, particulars or documents as the Commission may require to assess such progress;

35. Prudence Check of CAPEX Works:

35.1 The Commission shall undertake / cause to undertake prudence check of all the capital works of the Licensee costing more than Rupees Five Crores or any other amounts as may be decided by the Commission by general or special order;

35.2 The Licensee shall submit to the Commission the list of works / projects / schemes commissioned and categorised for the financial year/s for which the Commission decides to undertake prudence check;

35.3 The Works identified for prudence check shall be subjected to detailed scrutiny including the following aspects;

- (a) Whether approval has been obtained from the Commission;
- (b) Whether DPRs were prepared duly indicating the pre and post commissioning benefits in the DPRs/ Estimates;
- (c) Whether the implementation of the project is as per the plan (DPR/ Estimates) or there are no major deviations to the original plan;

(d) Whether the required objectives as per the DPR have been achieved;

Detailed procedure for conducting the “**Prudence Check**” are enclosed as **Annexure-II** to these Regulations.

35.4 The disallowance of depreciation and interest on capital expenditure, to the extent of the works considered imprudent, shall be at the rate of depreciation applicable to appropriate heads of accounts like Plant and Machinery etc., as per CERC Regulations / Notification and interest rate equal to weighted average rates applicable to existing capital loans for relevant years. The disallowance of interest and depreciation on imprudent works shall continue till the work is considered as prudent, by the Commission. The amount so disallowed shall not be reversed / added back in the ensuring ARR gap and same cannot be passed on to the consumers;

Provided also that in case the actual benefits of the Capex are greater than the anticipated benefits, no sharing of gains shall be allowed to the Applicant.

36. **Target Availability for recovery of full transmission charges shall be as follows:**

- (a) Target Availability for intra-state transmission availability shall be 98.50%;
- (b) Recovery of fixed charges below the level of target availability shall be on pro-rata basis. At Zero Availability, no transmission charges shall be payable;
- (c) Target Availability shall be calculated in accordance with the procedure specified in **Annexure-III**;

37. **Operation and Maintenance expenses:**

37.1 The Licensee shall be permitted to recover through tariff, subject to Annual Performance Review (truing-up), the 'Operation and Maintenance' expenses in accordance with this Regulation;

37.2 The Components of 'Operation and Maintenance' expenses include the following;

- (a) Repairs and Maintenance Expenses;
- (b) Employee Expenses, excluding contribution towards pension and gratuity, Newly Defined Contributory Pension Scheme and Leave Encashment;

Provided that the contribution towards pension and gratuity, Newly Defined Contributory Pension Scheme and Leave Encashment and arrears of wage revision, if any, to be factored in employee cost shall be considered separately as un-controllable expenditure;

- (c) Administrative and General Expenses;

37.3 The base year 'Operation and Maintenance' expenses shall be derived on the basis of the average of the Trued-up 'Operation and Maintenance' expenses (separately for each of the component indicated in Regulation 37.2) after adding / deducting the share of efficiency gains / losses, for the three previous years prior to the Control Period (Eg: For the Control Period FY25 to FY27, average of trued-up O and M expenses of FY21, FY22 and FY23 shall be considered), excluding abnormal 'Operation and Maintenance' expenses, if any, subject to prudence check by the Commission:

Provided that such base year 'Operation and Maintenance' expenses shall be escalated at the escalation rate considering the Inflation Rate;

['Inflation Rate' shall be the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce and 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 CERC with CPI and WPI in a ratio of 80:20 or such other ratio as may be considered by the Commission, considering the data of past Ten financial years;]

37.4 The Licensee shall also propose determination of the admissible O and M expenses on the basis of per ckt-Km of lines and per bay of substation for the

base year and appropriate inflation factor for Operation and Maintenance expense for each year of the Control Period;

Provided that the apportionment of actual Operation and Maintenance cost per substation bay and per ckt-Km of the lines for the base 'Operation and Maintenance' expenses shall be in the ratio of 70% for bays and 30% for transmission lines or such other proportion as may be justified by the licensee by segregating the accounting data;

- 37.5 The Contributions towards pension and gratuity, Newly Defined Contributory Pension Scheme and Leave Encashment on the basis of Actuarial valuation report and arrears of wage revision, if any, shall be accounted separately as un-controllable expenses;
- 37.6 The impact of Wage Revision, if any, may be considered at the time of Annual Performance Review (true-up) for any Year, based on audited accounts subject to providing necessary break up;
- 37.7 While truing-up the 'Operation and Maintenance' expenses, the Commission shall allow the actual O and M expenses or the normative expenses, whichever is lower.
- 37.8 The Provisions in respect of wage revision expenses shall not be allowed as expenses at the time of Annual Performance Review (true-up), and only expenses actually incurred shall be allowed;
- 37.9 The charges for station auxiliary energy consumption in the sub-stations / offices for the purpose of air-conditioning, lighting, technical consumption, etc., shall be borne by the Transmission Licensee as part of its normative operation and maintenance expenses.

Provided that the charges for station auxiliary consumption shall be paid by the transmission licensee to the respective distribution licensee as per the tariff approved by the Commission from time to time.

38. Other Income (Non-Tariff Income):

- 38.1 The amount of non-Tariff income relating to the Transmission Business as approved by the Commission shall be deducted from the Aggregate Revenue Requirement in determining the Annual Transmission Charges of the Transmission Licensee;

Provided that the Transmission Licensee shall submit full details of its forecast of non-Tariff income to the Commission in such form as may be stipulated by the Commission;

- 38.2 The Non-Tariff Income shall include:
- a) Income from rent of land or buildings;
 - b) Income from sale of scrap;
 - c) Income from investments;
 - d) Interest income on advances to suppliers/contractors;
 - e) Income from rental from staff quarters;
 - f) Income from rental from contractors;
 - g) Income from hire charges from contractors and others;
 - h) Supervision charges for capital works;
 - i) Income from advertisements;
 - j) Income from sale of tender documents;
 - k) Any other Non-Tariff Income:

Provided that the interest earned from investments made out of Return on Equity corresponding to the regulated Business of the Transmission Licensee shall not be included in Non-Tariff Income.

39. **Income from Other Business:**

Where the Transmission Licensee has engaged in any Other Business under Section 41 of the Act for optimum utilisation of its assets, an amount equal to two-thirds of the revenues from such Other Business after deduction of all direct and indirect costs attributed to such Other Business shall be deducted from the Aggregate Revenue Requirement in calculating the Annual Transmission Charges of the Transmission Licensee;

Provided that the Transmission Licensee shall follow a reasonable basis for allocation of all joint and common costs between the Transmission Business and the Other Business and shall submit the Allocation Statement, duly certified by the Statutory Auditor, to the Commission along with its Petition for determination of Aggregate Revenue Requirement;

Provided further that where the sum total of the direct and indirect costs of such Other Business exceeds the revenues from such Other Business, no amount shall be allowed to be added to the Aggregate Revenue Requirement of the Transmission Licensee on account of such Other Business;

40. **Determination of Transmission Tariff:**

40.1 The transmission tariff payable by the Long Term Open Access (LTOA) customers, including the Distribution Licensees, for usage of Transmission system shall be determined in accordance with the following formula;

$$TR^{LT} = \frac{\text{Net ARR} \times 10^7}{\text{TCC} \times 12}$$

Where:

TR^{LT} = Transmission Rate per MW per Month for a LTOA Customer (In Rupees, rounded off to nearest rupee);

Net ARR = Net Aggregate Revenue Requirement for a financial year determined by the Commission (Rupees in Crores);

TCC = Total Contracted Capacity of the transmission system by all long term open access customers (in MW);

40.2 The transmission tariff payable by the Short Term Open Access (STOA) customers of the Transmission system shall be determined in accordance with the following formula;

$$TR^{ST} = \frac{\text{Net ARR (Rs.in Crores)} \times 10}{\text{Energy Transmitted by Transmission Licensee (MU)}}$$

Where:

TR^{ST} = Transmission Rate per KWh per Month for a STOA Customer (In Rupees, rounded off to nearest rupee);

Net ARR = Net Aggregate Revenue Requirement for a financial year determined by the Commission (Rupees in Crores);

41. Each Transmission User (including the Distribution Licensees) shall have to execute an agreement in terms of the Open Access Regulation duly mentioning, inter alia, contracted capacity with the Licensee;