



Uttar Pradesh Electricity Regulatory Commission

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Sanjay Srivastava
Secretary

Ref: UPERC/Secy/D(Tariff)/17-1879
Dated: 04th January, 2017

PUBLIC NOTICE

Subject: Draft Uttar Pradesh Electricity regulatory Commission (Multi Year Distribution Tariff) (First Amendment) Regulations, 2017

1. In exercise of the power conferred under Section 181 of the Electricity Act, 2003 (the Act), the Commission has made draft Regulations of the Uttar Pradesh Electricity Regulatory Commission (Multi Year Distribution Tariff) (First Amendment) Regulations, 2017, in order to amend certain provisions of the Uttar Pradesh Electricity regulatory Commission (Multi Year Distribution Tariff) Regulations, 2014. The draft Regulations along with explanatory Memorandum are annexed to this notice and can be downloaded from the Commission's website <http://uperc.org>.
2. Notice is hereby given under sub-section (3) of Section 181 of the Act read with Rule 3 of the Electricity (Procedure for Previous Publication) Rules, 2005 inviting comments / suggestions / objections may be sent to the undersigned by January 31, 2017.
3. The comments / suggestions / objections received after the stipulated date in the Commission's office shall not be considered while finalizing these Regulations.

Yours sincerely


(Sanjay Srivastava)
Secretary

**Uttar Pradesh Electricity Regulatory Commission Notification
Lucknow,**

In exercise of the power conferred under Section 181 of the Electricity Act, 2003 (the Act), and all other power enabling it in this behalf, the Uttar Pradesh Electricity Regulatory Commission hereby makes the following Regulations to amend the Uttar Pradesh Electricity regulatory Commission (Multi Year Distribution Tariff) Regulations, 2014 (herein referred to as "the Principal regulations") namely:-

1. Short Title and Commencement-

1.1 These regulations shall be called the Uttar Pradesh Electricity regulatory Commission (Multi Year Distribution Tariff) **(First Amendment)** Regulations, 2017,

1.2 These regulations shall come into force with effect from the date of their publication in the Official Gazette.

2. Amendment to Regulation 28 of Principal Regulations

Regulation 28 may be replaced as under:

"28 Interest on Working Capital

The Distribution Licensee shall be allowed interest on estimated level of working capital for the financial year, computed as follows:

- a) O&M expenses for one month.
- b) Two months equivalent of expected revenue.
- c) Maintenance spares @ 40% of R&M expenses for two months.

Less:

Security deposits from consumers, if any.

Provided that the interest on working capital shall be at the rate of interest equal to the weighted average of the State Bank Advance Rate for the first six month of the financial year in which petition for determination of ARR / Tariff is filed by the petitioner.

Provided that at the time of truing up for any year, interest on working capital shall be allowed at a rate equal to the weighted average of the effective State Bank Advance Rate for the financial year for which truing up is done or the actual rate of interest paid on the working capital by the licensee for the year for which truing up is being done, whichever is less.



Provided further that interest shall be allowed on consumer security deposits as per the provisions of the Electricity Supply Code, 2005 and its subsequent amendments / addendums & the new regulations made after repeal of the same.”

3. Amendment to Regulation 35 of Principal Regulations

Regulation 35 may be replaced as under:

“35 Treatment of Regulatory Assets

a) Regulatory assets shall not be created against cost/loss incurred in normal course of business.

Provided that in such a case, financing arrangement or capital restructuring shall be deployed to cover the gap.

b) The amortization schedule corresponding to the regulatory asset shall be prepared and put in effect along with creation of the regulatory asset.

c) The carrying cost of the regulatory asset shall be in line with the rate of interest equal to the weighted average of the State Bank Advance Rate for the first six month of the financial year in which petition for determination of ARR / Tariff is filed by the petitioner.

Provided that at the time of truing up for any year, carrying cost of the regulatory asset shall be allowed at a rate equal to the weighted average of the effective SBAR for the year for which truing up is being done or the actual rate of interest paid on the working capital by the licensee, whichever is less.

Provided that in case the Utility has not availed any working capital during the year, the carrying cost shall be allowed at a rate equal to weighted average of the effective SBAR for the year for which truing up is being done or the actual interest rate paid for the regulatory asset, whichever being less.

d) There shall not be a long gap in truing up of accounts of the Distribution Licensee so as to prevent the need for creation of the regulatory asset.”

**Explanatory Memorandum to
Uttar Pradesh Electricity regulatory Commission (Multi Year Distribution Tariff)
(First Amendment) Regulations, 2017**

A comprehensive review of Uttar Pradesh Electricity Regulatory Commission (Multi Year Distribution Tariff) Regulations, 2014, provisions has been carried out in view of recent developments.

The changes proposed are as under:

1. Amendment of Regulation 28:

At present normative approach based on SBAR is provided for Interest on Working Capital in the Uttar Pradesh Electricity Regulatory Commission (Multi Year Distribution Tariff) Regulations, 2014.

However at the time of ARR and Tariff determination, it is preferable to consider the latest available information for calculation of Interest on Working Capital and hence it is proposed to consider the weighted average of the Interest Rate (i.e. SBAR) effective for first six month of the financial year in which Petition is filed for its calculation.

Further at the time of truing up for any year, full year information about the effective interest rate (i.e. SBAR) will be available and hence it is proposed to consider the effective interest rate for the whole year for the calculation of Interest on Working Capital. Also it is desirable that the Utilities should keep track of interest rate movement and accordingly arrange their loans.

The objective of allowing interest on working capital is to allow legitimate expenses to the Utility and Utility should not make any undue gain from the interest rate and hence it is proposed to consider the lower of the actual interest paid by the Utility or the effective interest rate for the calculation of Interest on Working Capital while carrying out the truing up.

Accordingly, it has been suggested to replace the Regulation 28 with following:

Sr.	Existing Clause	Amendment Proposed
1	<p><i>"28 Interest on Working Capital The Distribution Licensee shall be allowed interest on estimated level of working capital for the financial year, computed as follows:</i></p> <p><i>a) O&M expenses for one month. b) Two months equivalent of expected revenue. c) Maintenance spares @ 40% of R&M expenses for two months. Less:</i></p> <p><i>Security deposits from consumers, if any.</i></p>	<p><i>"28 Interest on Working Capital The Distribution Licensee shall be allowed interest on estimated level of working capital for the financial year, computed as follows:</i></p> <p><i>a) O&M expenses for one month. b) Two months equivalent of expected revenue. c) Maintenance spares @ 40% of R&M expenses for two months. Less:</i></p> <p><i>Security deposits from consumers, if any.</i></p>

<p><i>Provided that the interest on working capital shall be on normative basis and rate of interest shall be equal to the State Bank Advance Rate (SBAR) as of the date on which petition for determination of tariff is accepted by the Commission.</i></p> <p><i>Provided further that interest shall be allowed on consumer security deposits as per the provisions of the Electricity Supply Code, 2005 and its subsequent amendments / addendums & the new regulations made after repeal of the same."</i></p>	<p><i>Provided that the interest on working capital shall be at the rate of interest equal to the weighted average of the State Bank Advance Rate for the first six month of the financial year in which petition for determination of ARR / Tariff is filed by the petitioner.</i></p> <p><i>Provided that at the time of truing up for any year, interest on working capital shall be allowed at a rate equal to the weighted average of the effective State Bank Advance Rate for the financial year for which truing up is done or the actual rate of interest paid on the working capital by the licensee for the year for which truing up is being done, whichever is less.</i></p> <p><i>Provided further that interest shall be allowed on consumer security deposits as per the provisions of the Electricity Supply Code, 2005 and its subsequent amendments / addendums & the new regulations made after repeal of the same."</i></p>
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2. Amendment of Regulation 35:

At present normative approach based on SBAR is provided for Carrying Cost in the Uttar Pradesh Electricity Regulatory Commission (Multi Year Distribution Tariff) Regulations, 2014.

However at the time of ARR and Tariff determination, it is preferable to consider the latest available information for calculation of Carrying Cost and hence it is proposed to consider the weighted average of the Interest Rate (i.e. SBAR) effective for first six month of the financial year in which Petition is filed for its calculation.

Further at the time of truing up for any year, full year information about the effective interest rate (i.e. SBAR) will be available and hence it is proposed to consider the effective interest rate for the whole year for the calculation of Carrying Cost.

The objective of allowing carrying cost is to allow legitimate expenses to the Utility and Utility should not make any undue gain from the interest rate and hence it is proposed to consider the lesser of the actual interest paid by the Utility or the effective interest rate for the calculation of Interest on Working Capital while carrying out the truing up.



Similarly, when no Working Capital loan is availed by the utility, the carrying cost on regulatory assets is proposed to be considered as the effective interest rate or the actual interest paid for regulatory assets, whichever being less.

Accordingly, it has been suggested to replace the Regulation 35 with following:

Sr.	Existing Clause	Amendment Proposed
1.	<p>"35 Treatment of Regulatory Assets</p> <p><i>a) Regulatory assets shall not be created against cost/loss incurred in normal course of business.</i></p> <p><i>Provided that in such a case, financing arrangement or capital restructuring shall be deployed to cover the gap.</i></p> <p><i>b) The amortization schedule corresponding to the regulatory asset shall be prepared and put in effect along with creation of the regulatory asset.</i></p> <p><i>c) The carrying cost of the regulatory asset shall be in line with the State Bank Advance Rate (SBAR) for the tenure for which regulatory asset has been created.</i></p> <p><i>d) There shall not be a long gap in truing up of accounts of the Distribution Licensee so as to prevent the need for creation of the regulatory asset."</i></p>	<p>"35 Treatment of Regulatory Assets</p> <p><i>a) Regulatory assets shall not be created against cost/loss incurred in normal course of business.</i></p> <p><i>Provided that in such a case, financing arrangement or capital restructuring shall be deployed to cover the gap.</i></p> <p><i>b) The amortization schedule corresponding to the regulatory asset shall be prepared and put in effect along with creation of the regulatory asset.</i></p> <p><i>c) The carrying cost of the regulatory asset shall be in line with the rate of interest equal to the weighted average of the State Bank Advance Rate for the first six month of the financial year in which petition for determination of ARR / Tariff is filed by the petitioner.</i></p> <p><i>Provided that at the time of truing up for any year, carrying cost of the regulatory asset shall be allowed at a rate equal to the weighted average of the effective SBAR for the year for which truing up is being done or the actual rate of interest paid on the working capital by the licensee, whichever is less.</i></p> <p><i>Provided that in case the Utility has not availed any working capital during the year, the carrying cost shall be allowed at a rate equal to weighted average of the effective SBAR for the</i></p>

		<p><i>year for which truing up is being done or the actual interest rate paid for the regulatory asset, whichever being less.</i></p> <p><i>d) There shall not be a long gap in truing up of accounts of the Distribution Licensee so as to prevent the need for creation of the regulatory asset."</i></p>
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3