2. GENERAL APPROACH AND GUIDING PRINCIPLES

2.1. Business Plan

2.1.1. The Distribution Licensee shall file for the Commission's approval, not less than 120 days before the commencement of the first year of the Control Period or such other date as may be directed by the Commission, a Long-Term Business Plan prepared in accordance with these regulations for the entire Control Period. The Business Plan shall be filed for the wheeling and retail supply business and shall, *inter alia*, contain:

1) Sales/Demand Forecast for each consumer category and sub-category for each year of the Control Period;

2) Distribution loss reduction trajectory and collection efficiency for each year of the Control Period;

3) Power Procurement Plan including details of availability of power from renewable energy source as concurred by GRIDCO for each year of the business plan period as per the terms of Vesting Orders. [The Distribution Licensee shall project the power purchase requirement based on the Quantum of Renewable Purchase Obligation (RPO), and the target set, if any, for Energy Efficiency (EE) and Demand Side Management (DSM) schemes. GRIDCO shall intimate the DISCOMs of its ability and readiness to procure power to meet the forecasted / projected Demand of electricity and the energy requirement of the State, failing which the DISCOMs shall provide their Plan to the Commission for meeting their demand.];

4) The Capital Investment Plan of the Distribution Licensee shall be prepared in accordance with the sales/demand forecast, power procurement plan, distribution loss trajectory, targets for quality of supply etc. The Capital investment plan shall be consistent with the perspective plan developed by the State Transmission Utility (STU) based on the data submitted by the Distribution Licensees and Load Flow studies conducted in line with the requirements of the State Grid Code. The planning of Distribution network, based on load flow study, shall be carried out for minimum five (5) year time frame and shall form the basis for capital investment. The investment plan should also include yearly phasing of capital expenditure along with the financing plan and corresponding capitalization schedule with due consideration of capital expenditure as per the Vesting Order. The capital investment plan shall show separately, on-going projects that will spill over into the Control Period, and new projects (along with justification) that will commence in the Control Period but may be completed within or beyond the Control Period. The Commission shall consider and approve the capital investment plan for the Wheeling Business and Retail Supply Business of the Distribution Licensee. The Commission, for its satisfaction, may require the Distribution Licensee to provide relevant technical and commercial details.

5) The purpose of investment shall be strengthening of distribution network, creation of new assets or augmentation / replacement of existing assets, meeting load growth, technical loss reduction, non-technical loss reduction including improvement in collection efficiency, meeting energy requirement, custom service improvement in terms of quality & reliability of supply including energy audit, asset mapping and consumer indexing, etc.

6) The Distribution licensee shall focus on (a) safety of human, animal and equipment including implementation of protection system (b) strengthening of distribution network (c) standardisation of equipment & material and standardisation of technical specification in line with national regulations & national standards to ensure use of good quality equipment & material, facilitate interchangeability and faster delivery (d) optimum utilisation of assets i.e. avoid underutilisation of assets (e) adoption of state-of-art technology including SCADA & Automation system, smart metering and use of modern diagnostic tools for monitoring of health of distribution assets etc. with objective to improve reliability, safety, providing uninterrupted (24x7) quality power to all and better customer service

7) The appropriate capital structure and cost of financing (interest on debt) and return on equity, terms of the existing loan agreements, etc;

8) The Operation and Maintenance (O&M) costs estimated for each year of the Business Plan Period based on the proposed efficiency in operating costs, norms for O&M cost allowance including indexation and other appropriate mechanism, if any;

9) Details of depreciation based on useful life of the assets and capitalization schedule for each year of the control period.

10) A set of targets proposed for other controllable items such as working capital, quality of supply etc. The targets shall be consistent with the capital investment plan proposed by the Licensee;

11) Proposals for other items such as external parameters used for indexation (inflation, etc);

12) The Distribution Licensee shall forecast expected revenue from prevailing tariff and charges based on the estimates of quantum of electricity to be supplied to consumers and to be wheeled on behalf of Distribution System Users for ensuing Financial Year within the Control Period as on the date of making the application.

13) The Distribution Licensee shall provide voltage wise cost of supply for each year of the control period.

14) The filings in addition to the Business Plan period shall also contain the data for the cost and revenue parameters for the previous five years period.

15) The Applicant shall provide full details, supporting the forecast, including but

not limited to details of past performance, proposed initiatives for achieving efficiency or productivity gains, technical studies, contractual arrangements and/or secondary research, to enable the Commission to assess the reasonableness of the forecast.

2.1.2. The variation in revenue/cost on account of uncontrollable factors and controllable factors shall be trued up annually.

2.1.3. For all controllable costs, the Commission may set the targets for each year under review in the approved Business Plan. These targets shall be used for computing revenue requirement.

2.1.4. All non-controllable costs shall be treated as pass-through by the Commission after due diligence and prudence check.

2.1.5. The performance parameters, whose trajectories have been specified as per these Regulations, shall form the basis of projection of these performance parameters in the Business Plan.

2.1.6. Annual review of performance shall be conducted based on the actual vis-à-vis the approved forecast and categorization of variations in performance into controllable factors and uncontrollable factors;

2.1.7. The Commission shall make periodic reviews of the licensee’s performance during the control period to address any practical issues, concerns or unexpected outcomes that may arise either in generally or in specific situations.

2.1.8. On receipt of Business Plan application, the Commission shall either:

(a) issue an Order approving the Business Plan for the entire Control Period, subject to such conditions as it may specify in the said Order; or

(b) reject the application for reasons to be recorded in writing, as the Commission may deem appropriate:

Provided that the Applicant shall be given a reasonable opportunity to present/submit his case before rejection of his application.

2.2. Accounting statement for Wheeling and Retail Supply Business

2.2.1. The Distribution Licensee for the Wheeling Business and Retail Supply Business, shall file separate audited accounting statements as per the guidelines notified by the Commission with the application for determination of tariff and truing up under these Regulations:

Provided that in case complete accounting segregation has not been done between the Wheeling Business and Retail Supply Business, the Aggregate Revenue Requirement of the Distribution Licensee shall be apportioned between Wheeling Business and Retail Supply Business in accordance with the Allocation Matrix specified in these Regulations:

Provided that the Distribution Licensee shall provide the reconciliation statement, duly certified by the statutory auditors, showing the accounting statement under Indian Accounting standard (IND AS) and Generally Accounting Accepted Principles (GAAP) as per financial statement and Regulatory format.

2.3. Applicability

2.3.1. This Multi-Year Tariff Principle shall apply to applications made for determination of tariff for a Distribution Licensee for Wheeling Business and Retail Supply Business.

2.4. Trajectory for Specific Critical Parameters

2.4.1. While approving the Business Plan, the Commission may stipulate a trajectory for the critical parameters for achieving improved performance during the Control Period:

2.5. Segregation of Wheeling and Retail Supply Business

2.5.1. The Distribution Licensee shall segregate the accounts of the Licensed business into Wheeling Business and Retail Supply Business within one year of notification of these Regulations as per the guidelines to be issued by the Commission.

2.5.2. The Wheeling Charges of the Distribution Licensee shall be determined by the Commission on the basis of segregated accounts of Wheeling Business:

Provided that till the time the Distribution Licensee submits audited and certified separate accounts for Wheeling Business and Retail Supply Business, the following Allocation Matrix shall be applicable:

Allocation matrix for segregation of expenses between Wheeling Business and Retail Supply Business

Particulars	Wheeling Business (%)	Retail Supply Business (%)
Power Purchase Expenses	0%	100%
Intra-State Transmission Charges	0%	100%
Employee Expenses	60%	40%
Administrative and General Expenses	50%	50%
Repair and Maintenance Expenses	90%	10%
Depreciation	90%	10%
Interest on Long-term Loan Capital	90%	10%
Interest on Working Capital	10%	90%
Provision for Bad Debts	0%	100%
Income Tax	90%	10%
Contribution to contingency reserves, if any	100%	0%
Return on Equity	90%	10%
Non-Tariff Income	10%	90%

2.6. ARR Filing Procedure

2.6.1. The proceedings to be held by the Commission for determination of tariff shall be in accordance with the OERC (Conduct of Business) Regulations, 2004, as amended from time to time.

2.6.2. The Commission shall annually determine the tariff for Wheeling Business and Retail Supply Business based on an application received from the Licensees in accordance with the procedure contained in these Regulations or suo-moto as per the provisions of the Act.

2.6.3. The licensee as part of his application to the Commission, in such form as may be approved by the Commission from time to time, shall submit full details of his calculation of the Aggregate Revenue Requirement, expected revenue from existing tariff and charges and other required information with regard to technical, commercial and financial parameters and thereafter, he shall furnish such further information or particulars or documents as the Commission may reasonably require to assess such calculation.

Provided that the application shall be accompanied where relevant, by a detailed tariff and charges revision proposal for Wheeling Tariff and Retail Supply Tariff including its computation, showing category-wise tariff and how such revision would meet the gap, if any, in Aggregate Revenue Requirement for the respective year of the Control Period.

Provided further that the Commission may specify additional/alternative formats for details to be submitted by the licensee, from time to time, as it may reasonably require for assessing the Aggregate Revenue Requirement and for determining the tariff.

2.6.4. The licensee in the ARR filing for the ensuing Financial Year shall indicate the manner in which the gap, if any, between the charges permitted to be recovered and the expected revenue calculated, shall be filled up.

2.6.5. The licensee shall along with the aforesaid application submit a statement on the status of compliance of directives, if any, issued by the Commission in its last Tariff Order.

2.6.6. The licensee shall file combined application every year for approval of Truing up of previous year; Annual Performance Review (APR) (considering actual performance of first 6 months and projection for next / subsequent 6 months of the year) for current year, Annual Revenue Requirement (ARR) for determination of tariff for ensuing Financial Year, as per timelines specified in **Annexure-I** of these Regulations.

2.7. Issuance of Tariff Order

2.7.1. The Commission shall, within one hundred and twenty (120) days from the date of registration of a complete application and after considering all suggestions and objections received from the public:

a. issue an Order approving the application, subject to such modifications and conditions as it may specify in the said Order; or

b. reject the application for reasons to be recorded in writing, as the Commission may deem appropriate:

Provided that the licensee shall be given opportunity to present / submit his case before rejection of his application.

2.7.2. A Tariff Order shall continue to be in force from the date specified in the said Order and shall, unless amended or revoked, continue to be in force for such period as may be stipulated therein.

2.8. Adherence to Tariff Order

2.8.1. No tariff or part of any tariff may be ordinarily amended, more frequently than once in any Financial year. The Commission, may, after satisfying itself for reasons to be recorded in writing, allow revision of tariff.

2.8.2. If any Distribution Licensee recovers price or charge exceeding the tariff determined under Section 62 of the Act and in accordance with these Regulations, the excess amount shall be payable to the person who has paid such price or charge, along with interest equivalent to the Base rate without prejudice to any other liability incurred by such Distribution Licensee.

2.8.3. The Licensees shall submit periodic reports as may be required by the Commission, containing operational and cost data to enable the Commission to monitor the implementation of its Order.

2.9. Annual determination of tariff

2.9.1. The Commission shall determine the tariff of a Distribution Licensee for each Financial Year during the Control Period, at the commencement of such Financial Year, having regard to the following:

a. The approved forecast of Aggregate Revenue Requirement and expected revenue from tariff and charges of the Distribution Licensee for such Financial Year, including modifications approved at the time of mid-term review, if any; and

b. The approved gains and losses, to be passed through in tariffs, following the Truing Up of previous year.

2.10. Determination of Tariff for Distribution Licensee

2.10.1. The proceedings to be held by the Commission for determination of tariff shall be in accordance with the OERC (Conduct of Business) Regulations, 2004, as amended from time to time.

2.10.2. Notwithstanding anything contained in these Regulations, the Commission shall at all times have the authority, either on suo-motu basis or on a Petition filed by the Distribution Licensee, to determine the tariff, including terms and conditions thereof:

Provided that such determination of tariff may be pursuant to an agreement or arrangement or otherwise previously approved by the Commission and entered into at any time before or after the applicability of these Regulations.

2.10.3. 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:

Provided that the Applicant shall provide such information as the Commission may require for satisfying itself that the guidelines issued by the Central Government have been duly followed.

2.11. **Truing Up**

2.11.1. The Distribution Licensee shall be subject to truing up of expenses and revenue during the Control Period in accordance with these Regulations.

2.11.2. The Distribution Licensee shall file an Application for Truing up of previous year; as per Timelines specified in **Annexure-I**:

Provided that the Distribution Licensee, shall submit the information to the Commission in such form as may be prescribed by the Commission, together with the Audited Accounts, extracts of books of account and such other details as the Commission may require to assess the reasons for and extent of any variation in financial performance from the approved forecast of Aggregate Revenue Requirement and expected revenue from tariff and charges:

2.11.3. The scope of the truing up shall be a comparison of the performance of the Distribution Licensee with the approved forecast of Aggregate Revenue Requirement and expected revenue from tariff charges and shall comprise of the following:

a. A comparison of the audited performance of the Applicant for the previous Financial Year with the approved forecast for previous Financial Year, subject to the prudence check;

b. Review of compliance with directives issued by the Commission from time to time;

c. Other relevant details, if any.

2.11.4. Truing-up shall be carried out, on the basis of actual expenses booked in the audited account of the Distribution Licensee for the particular year, and the expenses allowed in the ARR for the corresponding Financial Year, subject to prudence check by the Commission based on Controllable and Un-controllable costs provided in these Regulations:

Provided that in case variations are large, and it is not feasible to recover in one year alone, the Commission may take a view to create regulatory asset.

Provided that under business-as-usual conditions, no creation of Regulatory Assets shall be allowed;

Provided that recovery of outstanding Regulatory Assets along with carrying cost of Regulatory Assets should be time bound and within a period not exceeding seven years. The Commission may specify the trajectory for the same

In respect of the expenses incurred by the Distribution Licensee during the year for controllable and uncontrollable parameters, the Commission shall carry out a detailed review of performance of an Applicant vis-a-vis the approved forecast as part of the truing up.

2.11.5. Upon completion of the Truing Up, the Commission shall pass an order recording:

a. the approved aggregate gains or losses to the Distribution Licensee on account of controllable factors, and the amount of such gains or such losses that may be shared in accordance with these Regulations;

b. Components of approved cost pertaining to the uncontrollable factors, which were not recovered during the previous year, to be passed through as per these Regulations;

c. Carrying cost to be allowed on the amount of Revenue Gap or Revenue Surplus for the period from the date on which such gap/surplus has become due, i.e., the interest should be calculated for the period from the middle of the Financial Year in which the revenue gap had occurred upto the middle of the Financial Year in which the recovery has been proposed, calculated on simple interest basis at the weighted average Base Rate of the respective Financial Year or any replacement thereof by SBI from time to time being in effect applicable for 1 year period, as applicable for the relevant year:

   Provided that carrying cost on the amount of Revenue Gap shall be allowed up to the above limit, subject to prudence check and submission of documentary evidence for having incurred the carrying cost in the years prior to the year in which the revenue gap is addressed;

d. The Commission may create regulatory assets in case of the Distribution Licensee incurring losses on account of uncontrollable factors under special circumstances at its own discretion to be recovered in a time bound manner:

   Provided that the amortization schedule corresponding to the regulatory asset shall be prepared and put in effect along with creation of the regulatory asset:

Provided that the carrying cost of the regulatory asset shall be determined by Commission from time to time taking into account the Base Rate prevailing as on 1st January of the preceding year, for the period for which regulatory asset is proposed to be amortized.

2.12. Controllable and Uncontrollable costs

2.12.1. For the purpose of these Regulations, the term "**uncontrollable factors**" shall comprise of the following factors, which were beyond the control of the Applicant, and could not be foreseen and mitigated by the Applicant:

a. Force Majeure events;

b. Change in law, judicial pronouncements and Orders of the Central Government, State Government or Commission (as applicable);

c. Variation in the price of fuel and/ or price of power purchase including Intra-State transmission and SLDC Charges approved by the Commission from time to time;

d. Variation in the number or mix of consumers or quantum of electricity supplied to consumers;

e. Transmission Loss;

f. Variation in market interest rates;

g. Taxes and Statutory levies;

h. Taxes on Income;

2.12.2. For the purpose of these Regulations, the term "**controllable factors**" shall include, but are not limited to, the following:

a. Variations in capitalisation on account of time and/or cost overruns/ efficiencies in the implementation of a capital expenditure project not attributable to an approved change in scope of such project;

b. Variation in Operation &Maintenance expenses;

c. Variation in Interest and Finance Charges, Return on Equity and Depreciation on account of variation in capitalisation, as specified in clause (a) above;

d. Variations in interest on working capital;

e. Variations in aggregate technical and commercial (AT&C) losses of Distribution Licensee;

f. Variations in recovery of past arrears pertaining to erstwhile Distribution Licensees as per terms of Vesting Orders

g. Variations in performance parameters;

h. Failure to meet the standards specified by the Commission, as amended from time to time, except where exempted by the Commission;

i. Bad debts written off.

j. Any other parameters not specifically listed above

2.13. Mechanism for pass through of gains or losses on account of uncontrollable factors

2.13.1. The approved aggregate gains or losses to the Distribution Licensee on account of uncontrollable factors shall be passed through as an adjustment in the tariff of the Distribution Licensee over such period as may be specified in the Order of the Commission passed under these Regulations.

2.13.2. The Distribution Licensee shall submit such details of the variation between expenses incurred and revenue earned, and the figures approved by the Commission, in the prescribed format to the Commission, along with the detailed computations and supporting documents as may be required for verification by the Commission.

2.14. Mechanism for sharing of gains or losses on account of controllable factors after Truing Up

2.14.1. The gains or losses accruing to the new Distribution Licensees on account of AT&C loss and incentive on past arrear recovery shall be governed by the terms and conditions of Request for Proposal (RfP) documents and Vesting Orders of respective Distribution Licensees.

2.14.2. The Distribution Licensee, if makes profit on account of improved performance in the areas (other than improved AT&C loss, O&M expense (comprising of Employee Expense, A&G expense & R&M Expense) and incentive on account of recovery of past arrears), including but not limited to refinancing of high-cost loan with low-cost loan, the Commission shall treat the profit beyond the approved return in the following manner:

a. One-third amount to be declared by the licensee as dividends to the shareholders and if it is not paid out as dividend, it shall be eligible to be treated as part of equity to that extent and earn returns on the same. Any future declaration of dividend from this shall lead to commensurate decrease in the equity base for the purpose of returns.

b. One-third amount to be returned back to consumers by way of reduction in the consumer bills as rebate.

c. One-third amount shall be kept as tariff balancing reserve, which shall be used to reduce sharp rise in ARR in future years. The Commission may allow a part of the total reserve to be returned to the consumers every three years by way of reduction in ARR. The amount in tariff balancing reserve shall not be eligible to be treated as part of equity and would not earn any return for the shareholders. Any return earned on this reserve shall be added back to this reserve.

Provided that this sharing mechanism shall be reviewed by the Commission after the expiry of the control period depending upon provision of vesting order.

2.14.3. The approved losses to the Distribution Licensee on account of controllable factors shall be entirely absorbed by the Distribution Licensee or in a manner as specified by the Commission in the Tariff Order.

2.15. Subsidy Mechanism

a. If the State Government grants any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under Section 62 of the Electricity Act 2003, the State Government shall, notwithstanding any direction which may be given under Section 108 of the Electricity Act 2003, pay, in advance and in such manner as may be specified, the amount to compensate the consumer(s) affected by the grant of subsidy in the manner specified in these Regulations, as a condition for the licence to implement the subsidy provided for by the State Government:

b. The Government shall, by notification, declare the consumers or class of consumers to be subsidised.

c. The licensee shall make an estimate of subsidy to be provided to the consumers or class of consumers as per the Government notification and file the same with the Commission for approval.

d. The Commission shall scrutinize the estimate and may require further details, data, documents in support of the estimates, which the licensees are required to file with the Commission within the stipulated time.

e. The Commission, on according approval forward the same to the State Government with a direction to pay the amount in full with a copy of the approval to the licensee.

f. On receipt of the approval of the Commission, the Government shall pay the amount to the licensees or the affected consumer(s) within one month of receipt of such approval.

g. The amount of subsidies shall be available to the licensees in the form of cash or cash equivalent only.

h. The licensee shall pay the subsidy received from the Government to the entitled class of consumers in proportion to their energy consumption on actual basis by way of adjustment in the electricity bill.

i. The licensee shall keep proper accounts of subsidy in such a manner as approved by the Commission and render the same to the Commission within 30 days of the closure of the Year of account.

j. The difference between the subsidy received from the Government and actual disbursement to the entitled class of consumers shall be adjusted in the next year.

Provided that no such direction of the State Government shall be operative if the payment is not made in accordance with the provisions contained in this section and the tariff fixed by State Commission shall be applicable from the date of issue of orders by the Commission in this regard.