RNI No. KARBIL/2001/47147

ಕರ್ನಾಟಕ ರಾಜ್ಯಪತ್ರ

ಅಧಿಕೃತವಾಗಿ ಪ್ರಕಟಿಸಲಾದುದು

ವಿಶೇಷ ರಾಜ್ಯ ಪತ್ರಿಕೆ

ಭಾಗ- IVA	ಬೆಂಗಳೂರು, ಸೋಮವಾರ, ಮೇ ೨೩, ೨೦೧೬ (ಜ್ಯೇಷ್ಠ ೨, ಶಕ ವರ್ಷ ೧೯೩೮)	ನಂ. ೭೫೫
Part-IVA	**Bengaluru, Monday, May 23, 2016 (Jyeishta 2, Shaka Varsha 1938)**	**No. 755**

KARNATAKA ELECTRICITY REGULATORY COMMISSION

No. 9/2, 6th & 7th Floor, Mahalaxmi Chambers, M.G.Road, Bengaluru – 560 001

NOTIFICATION

No. B/6/15(1), Dated: 18th May, 2016

KERC (Terms & Conditions for Determination of Transmission Tariff)(Second Amendment) Regulations, 2015.

PREAMBLE:

Whereas theKarnataka Electricity Regulatory Commission had proposed certain amendments to the KERC (Terms & Conditions for Determination of Transmission Tariff) (Second Amendment) Regulations, 2015 and published the draft amendments in the official gazette of Karnataka on 26th November,2015, inviting objections, suggestions if any.

Whereas, the Commission has considered the objections / suggestions received and has approved the following amendments to the Regulations as under:

In exercise of the powers conferred on it by Section 56 of the Karnataka Electricity Reforms Act 1999 and Section 61 read with Section 181 of the Electricity Act 2003 (No. 36 of 2003) and other enabling provisions, the Karnataka Electricity Regulatory Commission, herebymakes the following Regulations, namely:

1. Short Title and Commencement

(1) These Regulations shall be calledThe KERC (Terms & Conditions forDetermination of Transmission Tariff)(Second Amendment) Regulations, 2015.

(2) These Regulations shall extend to the whole of the State of Karnataka.

(3) These Regulations shall come into effect from the date of their publication in the Official Gazette.

2. Amendment to certain Clauses: -In the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, the existing Clause as in column (2) of the table below shall be substituted by the amended Clause as in column (3).

TABLE

Clause No. of Regulation	Clause as existing	Clause as Amended
	MULTI-YEAR TARIFF FRAMEWORK AND APPROACH	**MULTI-YEAR TARIFF FRAMEWORK AND APPROACH**
2.1	**Multi Year Tariff Framework** MYT framework shall be based on the following elements, for calculation of ARR and ERC:	**2.1 Multi Year Tariff Framework:** The Commission may determine the tariff under Multi-Year Tariff framework, either upon an application

		made to it by the transmission licensee orundersuo-motu.MYT framework shall be based on the following elements, for calculation of the ARR and ERC:
2.3	**Control Period:** The first Control Period under the MYT framework shall be of duration of 3 years commencing from FY08. Thereafter, each Control Period shall be normally aperiod of 5 financial years or such otherperiod as may be specified by the Commission from time to time.	**2.3Control Period:**Each Control Period shall be a period of 5 financial years or such other period as may be fixed by the Commission from time to time.
2.5.1	**Base Year** Values for the Base Year of the Control Period will be determined based on the audited accounts available, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items. The Commission will not normally revisit the performance targets during the Control Period.	**2.5.1 Base Year:** Values for the Base Year of the Control Period will be determined based on the audited accounts of the immediately preceding year, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items. The Commission will not normally revisit the performance targets during the Control Period.
3.3	**AuxiliaryEnergy Consumptioninthesub-station** The charges for auxiliary energy consumption in the sub-station/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. --------	**3.3 Auxiliary Energy Consumption in the sub-station:** 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.
3.4	**Treatment of losses**	**3.4 Treatment of losses**
3.4.2	Transmission Losses at normative level as approved by the Commission shall be debitable to energy account of users of the transmission system. In case the actual transmissionloss exceeds the normative loss level approved by the Commission, such excess loss shall be to the account of the Transmission Licensee and the Transmission Licensee shall compensate the Users at the weighted average cost of power purchase in that Financial year.	**3.4.2** Transmission Losses at normative level as approved by the Commission shall be debitable to energy account of users of the transmission system. In case the actual transmission loss exceeds the normative loss level approved by the Commission,such excess loss shall be to the account of Transmission Licensee and the Transmission Licensee shall be liable for penalty at the rate of 1% of the allowable RoE for every 0.5% variation

		in actual transmission loss over the approved range of transmission losses for the relevant period. Provided that if the actual transmission loss falls within the approved band, the transmission licensee shall not be levied penalty or allowed any incentive.
3.4.3	In case the actual transmission loss is less than the approved loss level, such savings shall be shared between the Transmission Licensee and the Users in the ratio of 70:30 during the first Control Period and in the ratio as may be decided by the Commission in the subsequent Control periods.	**3.4.3** In case the actual transmission loss is less than the approved loss level, such savings shall be shared between the Transmission Licensee and the Distribution licensee in the ratio of 50:50or in the ratio as may be decided by the Commission from time to time. Provided that the savings shall be computed at the rate of 1% of the allowable RoE for every 0.5% reduction in actual transmission loss below the lowerlimit of approved range of transmission loss for the relevant period.
3.5	**Capital Expenditure and determination of ARR:**	**3.5 Capital Expenditure and determination of ARR:**
3.5.1	Subject to prudence check by the Commission, the actual expenditure incurred on completion of the project shall form the basis for determination of ARR/tariff. The final tariff shall be determined based on the admitted capital expenditure actually incurred up to the date of commercial operation ofthe transmissionsystem and shall include capitalized initial spares subject to a ceiling norm as 1.5% of original project cost. ---- Provided that where the implementation agreement or the transmission service agreement entered into between the Transmission Licensee and the long-term transmission customers provides a	**3.5.1** The capex for the control period for determination of ARR/Tariff shall be on the basis of the actual expenditure incurred on capital investment during the previous control period, duly considering the additional capex programme of the licensee and the inflation factors, subject to prudence check by the Commission of the actual investment. The ARR / tariff shall be determined based on the admitted capital expenditure and shall include capitalised initial spares subject to a ceiling norm as 1.5% of original project cost. **3.5.2** During the Annual Performance Review, the actual capital expenditure incurred including the procurement of materials for the purpose of capex and accounted on completed works by the Transmission Licensee during the relevant financial year shall be scrutinized during the prudence check 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. Deleted

	ceiling of actual expenditure the capital expenditure shall not exceed such ceiling for determination of tariff. **Note:**Scrutiny of the project cost estimates by the Commission shall be limited to the reasonableness of the capital cost, financing plan, interest during construction, use of efficient technology and such other matters for determination of tariff. **Note:**While allowing the capital cost, the Commission would ensure that these are reasonable and to achieve this objective, requisite benchmark on capital costs would be evolved by the Commission.	**Note:**Scrutiny of the project cost estimates by the Commission shall be limited to the reasonableness of the capital cost, financing plan, interest during construction, use of efficient technology and such other matters for determination of tariff. **Note:**While allowing the capital cost, the Commission would ensure that these are reasonable so as to achieve the objective of the investment.
3.6	**Additional Capitalisation:**	**3.6** **DELETED**
3.6.1	The following capital expenditure withinthe original scope of work actually incurred after the date of commercial operation and up to the cutoff date may be admitted by the Commission, subject to prudence check: (i) Deferred liabilities; (ii) Works deferred for execution; (iii) Procurement of initial capital spares in the original scope of works subject to the ceiling norm specified ; (iv)Liabilities to meet award of arbitration or compliance of the order or decree of a court; and (v) On account of change in law. Provided further that a list of the deferred liabilities and works deferred for execution shall be submitted along with the application for tariff after the date of commercial operation of the transmission system. Note: Cutoff date means the date of first financial year closing after one year of the date of commercial operation of the transmission system.	**3.6.1** DELETED
3.6.2	Subject to the provisions ofclause 3.6.3 of this regulation, the capital expenditure of the following nature actually incurred after the cutoff date may be admitted by the Commission, subject to prudence check: (i) Deferred liabilitiesrelating to works/services within the original scope of work; (ii) Liabilities to meet award of arbitration or compliance of the order or decree of a court;	**3.6.2** DELETED

	(iii) On account of change in law; and (iv) Any additional works / services, which have become necessary for efficient and successful operation of the project, but not included in the original project cost.	
3.6.3	Any expenditure on minor items/assets bought after the cutoff date like tools and tackles, personal computers, furniture, air-conditioners, voltage stabilizers, refrigerators, coolers, fans, T.V., washing machine, heat- convectors, mattresses, carpets, etc. shall not be considered for additional capitalisation for determination of tariff after issue of these Regulations. Note: The list of items is illustrative and not exhaustive. Note 1: Any expenditure admitted on account of committed liabilities within the original scope of work and the expenditure deferred on techno- economic grounds but falling within the original scope of work shall be serviced on normative debt-equity ratio specified in these Regulations. Note 2: Any expenditure on replacement of old assets shall be considered after writing off the entire value of the original assets from the original capital cost. Note 3: Any expenditure admitted by the Commission for determination of tariff on account of new works not in the original scope of work shall be serviced on normative debt-equity ratio specified in these Regulations. Note 4: Any expenditure admitted by the Commission for determination of tariff on renovation and modernization and life extension shall be serviced on normative debt-equity ratio specified in these Regulations after writing off the original amount of the replaced assets from the original capital cost.	**3.6.3** DELETED
3.7	**Debt-Equity Ratio:**	**3.7 Debt-Equity Ratio:**
3.7.1	For financing of future capital cost of projects, a Debt: Equity ratio of 70:30 should be adopted. The Transmission Licensee would be free to have higher quantum of equity investments. The equity in excess of this norm should be treated as loans advanced at the weighted average rate of interest and for a weighted average tenor of the long term debt component of the project after ascertaining the reasonableness of the interest rates and taking into account the effect of debt restructuring done, if any. In case of equity below the normative level, the actual equity would be used for determination of Return on Equity in tariff computations.	**3.7.1** For the purpose of computation of ARR and for financing of projects under capital expenditure, a Debt: Equityratio of 70:30 shall be adopted. The Transmission Licensee shall be free to have higher quantum of equity investments. The equity in excess of this norm shall be treated as loans advanced at the weighted average rate of interest and for long term debt component of the project after ascertaining the reasonableness of the interest rates and taking intoaccount the effect of debt restructuring done, if any. Provided that for the purpose of revision of the ARR during Annual Performance Review (APR), debt equity ratioshall be limited

		to70:30of the gross assets. The equity in excess of this norm shall be treated as loans advanced at the weighted average rate of interest and for aweighted average or tenure of thelong termdebt component ofthe project after ascertaining the reasonableness of the interest rates and taking into account the effect of debt restructuring done, if any. Any additional equity received during the financial year shall be considered for debt equity ratio.
3.8	**Interest on loan Capital**	**3.8 Interest on loan Capital**
3.8.1	Interest on loan capital shall be computed loan wise on the loans arrived at in the manner indicated in sub clause 3.7 above.	**3.8.1** Interest on loan capital shall be computed loan wise on the loans arrived at in the manner specified in sub clause 3.7 above.
3.8.2	The loanoutstanding as on 01.04.2007 shall be worked out as the gross loan minus cumulative repayment asadmitted by the Commission up to 31.03.2007. The repayment for the period FY08 to FY10 shall be worked out on normative basis.	**3.8.2** The loan outstanding as at the beginning of the 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. Provided thatthe 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. Provided that the interest on new loansfor each financial year of the control period shall be allowed based on the latest available base rate of interest declared by RBI plus 200 basis points or the weighted average rate of interest on new loans, proposed by the distribution licensee, whichever is lower. 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.
3.9	**Depreciation**	**3.9 Depreciation:**
3.9.1	Depreciation shall be computed in the following manner, namely: (i) The value base for the purpose of depreciation shall be the historical cost of the asset. (ii) Depreciation shall be calculated annually based on straight-line method over the useful life of the asset and at the rates prescribed in CERC Guidelines / Notification issued from time to time.	3.9.1 Depreciation shall be computed in the following manner, namely: (i) The value base for the purpose of depreciation shall be the historical cost of the asset. (ii) Depreciation shall be calculated annually based on straight-line method over the useful life of the asset and at the rates prescribed in CERCGuidelines /Notifications issued from time to time.

	(iii) The residual life of the asset shall be considered as 10% and depreciation shall be allowed up to 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. -----	(iii) The residual life of the asset shall be considered as 10% and depreciation shall be allowed up to 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. **iv)** Depreciation on assets created out of Consumer Contribution / Grants shall be excluded for the purpose of computation of ARR.
3.9.2	Depreciation shall be chargeable from the first year of operation. In case of operation of the asset for part of the year, depreciation shall be charged on *pro rata* basis.	**3.9.2** Depreciation for the purpose of ARR shall be computed, over the useful life of the asset 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 (APR), the Depreciation shall be chargeable from the first year of operation. In case of operation of the asset for part of the year, depreciation shall be charged on pro rata basis. Explanation: For the purpose of computation of depreciation on pro-rata basis, depreciation for part of a month may be ignored.
3.9.3	The above said rate of depreciation shall be applicable both for the purpose of tariff as well as accounting.	**3.9.3** The rate of depreciation as specified under clause 3.9.1 (ii) of these Regulations shall be applicable both for the purpose of determination of tariff as well as accounting.
3.10	**ReturnonEquity** Return on equity shall be computed on the equity base determined in accordance with clause 3.7 above and shall be@ 15.5% per annum grossed up with allowable MAT (Minimum Alternative Tax). For the purpose of return on equity, any cash resources available to the Licensee from its share premium account or from its internal resources that are used to fund the equity	3.10. **ReturnonEquity:** **3.10.1** Return on equity shall be computed on the equity base, at the beginning of the financial year, in the manner specified in clause 3.7 above and shall be @ 15.5% per annum.The equity for the RoE so computed shall be limited to 30% of thegross assets excluding assets created out of consumer contribution / grants for the financial year for which ARR/APR is being determined. **3.10.2** In case the equity is below the normative level, the actual equity shall be used for determination of Return on Equity in tariff computations. **3.10.3** 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, on pro-rata basis. **Note:** For the purpose of return on equity, any cash resources available to the Licensee from its share premium account or from its internal resources that are used to fund

	commitments of the project under consideration shall be treated as equity subject to limitation contained in clause 3.7above.	the equity commitments of the project under consideration shall be treated as equity subject to limitation contained in clause 3.7 above.
3.11	**Operation and Maintenance expenses**	**3.11 Operation and Maintenance expenses**
3.11.1	In the case of existing Transmission Licensee, the Licensee in its filings shall submit the consolidated O&M expenses for the Base Year of the Control Period and for the two years preceding the Base Year. The O&M expenses for the Base Year shall be determined based on the latest audited accounts, best estimates of Licensee of the actual O&M expenses for relevant years and other factors considered relevant. The O&M expenses for the Base Year, if required, will be used for projecting the expenses for each year of the control period. The Licensee shall also propose determination of the admissible O&M expenses on the basis of per ckt-km of lines and per bay of substation for the base year and appropriate Inflation Factor Norms foroperation and maintenance expenses for the first control period.	**3.11.1 Operation and Maintenance expenses shall be computed in the following manner:** **(i)** The Transmission Licensee in its first or subsequent filings shall submit the consolidated O&M expenses comprising of employee cost, repairs & maintenances and administrative and general expenses, excluding contributions towards pension and gratuity, Newly Defined Contributory Pension Scheme and leave encashment, if any, for the Base Year of the Control Period and for two years preceding the Base Year. **(ii)** The O&M expenses for the Base year of the control period shall be computed based on the latest audited accounts, best estimates of Licensee of the actual O&M expenses for relevant years and other factors considered relevant. **(iii)** The O&M expenses for each financial year of the control period shall be computed/projected considering the O & M expenses reckoned for the Base Year excluding uncontrollable employee cost. **(iv)** The Licensee shall also propose determination of the admissible O&M expenses on the basis of per ckt-km of lines and per bay of substation for thebase yearand appropriateInflation Factor for operation and maintenance expenses for the control period. **(v)** The apportionment of actual O&M cost per substation bay and per ckt-km of linesfor the Base Year/ Control period shall be in the ratio of70% forbays and 30% for transmission lines or such other proportion as may be justified by the transmission licensee by segregating the accounting data as furnished for the base year. **(vi)** The contributions towards pension andgratuity,Newly Defined Contributory Pension Scheme and leave encashment if any, shall be accounted separately as un-controllable O & M expenses computed on the basis of latest actuarial valuation reports. **(vii)** Any employee cost proposed to be incurred on account of wage revision and proposed recruitments during the control period shall be factored in separately as additional O & M expenses.

<table>
<tr><td>3.11.2</td><td>The O&M cost per ckt-km of lines and per substation bay for the Base Year of second and subsequent Control Periodsshall be determined on the basis of actual O&M cost of lines and substations to be filed separately by the Licensee.</td><td>3.11.2DELETED</td></tr>
<tr><td>3.11.3</td><td>In the case of new Transmission Licensee undertaking intra-state transmission projects, the norm of operation and maintenance expenses per ckt - km and per bay shall be as under:

Norms for O&M expenses per ckt-km and perbay:

<table><tr><th rowspan="2">Particulars</th><th colspan="3">Years</th></tr><tr><th>2007-08</th><th>2008-09</th><th>2009-10</th></tr><tr><td>O&M expenses (Rs. in lakh per ckt-km)</td><td>0.255</td><td>0.266</td><td>0.277</td></tr><tr><td>O&M expenses (Rs. in lakh per bay)</td><td>31.63</td><td>32.90</td><td>34.22</td></tr></table></td><td>3.11.3 DELETED</td></tr>
<tr><td>3.12</td><td>Interest on Working Capital</td><td>3.12 Other Items of Expenditure</td></tr>
<tr><td>3.12.1

3.12.2</td><td>Interest on Working Capital
Working Capital shall cover:

(a) Operation and maintenance expenses for one month;
(b) Maintenance spares at 1% of the historical cost of assets at the beginning of the year and

(c) Receivables equivalent to two months of transmission charges calculated on target availability level.

Rate of interest on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank of India as on 1st April of the year. The interest on working capital shall be payable on normative basis notwithstanding that the Transmission Licensee has not taken working capital loan from any outside agency.</td><td>3.12.1 Interest on Working Capital:
Working Capital shall cover:

(a) Operation and maintenance expenses for one month;
(b) Maintenance spares at 1% of the historical cost of assets at the beginning of the year and
(c) Receivables equivalent to two months of transmission charges calculated on target availability level.

3.12.2The Commission, for the purpose of approval of ARR, shall consider the allowable interest on working capital calculated on normative basis at the rate of interest as per the latest available base rate notified by RBI plus 250 basis points OR the weighted average rate of interest on working capital proposed by the Transmission licensee, whichever is lower.

Provided that during Annual Performance Review, the Commission shall consider the allowable interest on working capital calculated on normative basisat the base rate of interest as on 1st April of the financial year as notified by RBI plus 250 basis points and if the actual expenditure is less than the</td></tr>
</table>

		normative amount, the allowable interest on working capital shall be limitedto the actual expenditure plus fifty percent of the difference between the actual expenditure and the amount as calculated on normative basis, Provided further that during the APR,if the actual expenditure exceeds the normative amount as calculated above, the total amount of allowable interest on working capital shall be limited to the amount as calculated on normative basis.
	--------	**3.12.3 Other Debits:** The other debits, for the purpose of APR, shall be allowed based on the actual expenditure incurred during the year excluding any provisions made for expenses.
	-------	**3.12.4 Net Prior Period Debit / Credit:** **i)** The net prior period debit / credit shall not be allowed in the ARR. **ii)** The net prior period debit / credit, for the purpose of APR, shall be allowed as per the actual expenditure / income incurred / received by the transmission licensee during the year as per the audited accounts, subject to scrutiny.
3.13	**Taxes on Income** -------	**3.13 Taxes on Income:** **3.13.5** The Income Tax for the purpose of ARR, shall be included in the allowable RoE computed as per Clause 3.10 of these Regulations by grossing up with allowable Minimum Alternate Tax (MAT) or applicable income tax as determined by the Government of India from time to time.
	------	**3.13.6** The allowable Income Tax for the purpose of Annual Performance Review (APR) shall be based on the actual income tax incurred by the Transmission 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 excess or short payment of the tax, if any, for the previous years.
3.15.1	**3.15.1** **Note 2.** For short term open access customers the transmission charges shall be as follows: Short Term Rate (ST rate) per day = 0.25* (Transmission expenditure / Annual peak)/365 Upto 6 Hrs in day in one block : 0.25 * ST Rate More than 6 Hrs. and upto 12 Hrs : 0.50 * ST rate	**3.15.1** **Note – 2.** For short term open access customers, the transmission charges shall be as follows: Short term (ST) rate per day / kW = 0.25 (net ARR / TCC) / 365 TCC = Total Contracted Capacity in kW of the Transmission system by all Long-Term Open access customers. Net ARR : Net ARR as determined.

	in a day in one block. More than 12 Hrs. : equal to ST rate and upto 24 Hrs in a day in one block.	Upto 6 Hrs in day in one block : 0.25 * ST Rate More than 6 Hrs. and upto 12 Hrs in a day in one block. : 0.50 * ST rate More than 12 Hrs. and upto 24 Hrs in a day in one block. : Equal to ST rate

By Order of the Commission

Captain Dr K Rajendra
SECRETARY
Karnataka Electricity Regulatory Commission

ಸರ್ಕಾರಿ ಮುದ್ರಣಾಲಯ, ವಿಕಾಸ ಸೌಧ ಘಟಕ, ಬೆಂಗಳೂರು. (ಪಿ7) 100 ಪ್ರತಿಗಳು