

HIMACHAL PRADESH ELECTRICITY REGULATORY COMMISSION, SHIMLA

NOTIFICATION

Shimla-2, the 22nd December, 2014.

No. HPERC-H(1)-13/2014:- In exercise of powers conferred by section 181, read with sub-section (8) of section 128 of the Electricity Act, 2003 (36 of 2003) and all other powers enabling it in this behalf, The Himachal Pradesh Electricity Regulatory Commission, after previous publication, hereby makes the following regulations:-

REGULATIONS

1. Short title, extent and commencement:-

- (1). These regulations shall be called the Himachal Pradesh Electricity Regulatory Commission (Reporting System on Power Regulatory Accounting) Regulations, 2014.
- (2) These regulations shall extend to the whole of the State of Himachal Pradesh and to all matters within the jurisdiction of the Himachal Pradesh Electricity Regulatory Commission
- (3) These regulations shall come into force from the date of their publication in the Rajpatra, Himachal Pradesh.

2. Applicability of the Regulations:-

These Regulations shall be applicable to all Licensees and Generating Companies, and where any Licensee also undertakes business of generation of electricity and who submits application for determination of tariff under Section 64 of the Act or makes an application for annual performance review under applicable tariff regulations made by the Commission.

3. Definitions:-

(1) In these regulations, unless the context otherwise requires,-

(a) “**Act**” means the Electricity Act (36 of 2003);

(b) “**Accounting Statement/Annual Accounts**” for each financial year, includes,-

- (i) the balance sheet, prepared at the end of the financial years; in accordance with the general instructions contained in Schedule III of the Companies Act, 2013;
- (ii) the cash flow statement, prepared in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013 on the recommendations of the Institute of Chartered Accountants of India;
- (iii) the cost records prepared and kept under Section 128 of the Companies Act, 2013(Act No. 18 of 2013);

- (iv) the profit and loss account, in accordance with the general instructions contained in the Schedule III to the Companies Act, 2013 (Act No. 18 of 2013);
 - (v) a statement of changes in equity, if applicable;
 - (vi) the report of the statutory auditors;
 - (vii) any explanatory note, annexed to, or forming part of, any document referred to in clause (i) or clause (v), and
 - (viii) such other supporting statements, together with notes thereto, and information as the Commission may direct from time to time;
- (c) **“Auditor”** means and includes an internal auditor or individual or a firm eligible for appointment and is not disqualified for appointment as auditor under the Companies Act, 2013 (Act No. 18 of 2013).
 - (d) **“Commission”** means the Himachal Pradesh Electricity Regulatory Commission;
 - (e) **“Financial Accounting Year”** means the period coinciding with the financial year for the purpose of determination of tariff, i.e., the period commencing on 1st day of April of a calendar year and ending on 31st March of the subsequent calendar year.
 - (f) **“Licensed Business”** means the functions and activities, which the licensee is required to undertake in terms of the licence granted or being a deemed licensee under the Act;
 - (g) **“Regulatory Accounts”** means the regulatory accounts, duly audited by the auditor of the Utility containing all the financial and non-financial information including the filled up formats appended to these regulations and cover the activities which includes without limitation the Statutory Accounts prepared under Companies Act, 2013 or any other law applicable to the Utility;
 - (h) **“Regulated Business”** means the business in relation to which functions and activities are regulated by the Commission;
 - (i) **“Other Business”** means any business of the licensee or of the deemed licensee other than the licenced business.
 - (j) **“Utility”** means a person who has been granted a license or is a deemed licensee under the Act, and includes a generating company.
- (2) The words and expressions used herein and not defined in these regulations, but are defined in the Act, rules, or regulations made thereunder, shall have the meanings respectively assigned to them in the Act, and rules or regulations made thereunder..

4. Preparation of Accounting Manual

- (1). Every Utility shall, within 90 days after the commencement of these regulations or the grant of the license or the beginning of the regulated business, prepare an accounting a Manual containing-
 - (i) definitions of terms and expressions used in the Manual;
 - (ii) introduction of the Utility;

- (iii) an overview of the Utility's organizational structure;
- (iv) a clear categorization of the regulated and unregulated activities of the Utility with further segregation of regulated activities covered under more than one Regulatory Commission;
- (v) a list of the entities within the group, relationship of the Utility with other group Companies or subsidiaries or related parties in terms of common resources, etc.;
- (vi) an overview of the financial accounting system, which may include policies relating to treating an expense item as major or minor, capitalization, depreciation, Return on Equity, security deposits, provision for bad and doubtful debts, apportionment of common assets, common liabilities, common expenses and common revenue, etc., with respect to the Regulatory Accounts;
- (vii) description of the treatment of related party transactions, allocation of common expenses and allocation of jointly used assets;
- (viii) products, services or geographical areas which shall be treated as separate segments while preparing regulatory accounts;
- (ix) segmentation of regulated business-
 - (a) generation – hydro, thermal, renewables i.e. small hydro, solar, wind, bio etc. or any other;
 - (b) transmission;
 - (c) SLDC;
 - (d) distribution - wheeling and retail supply business and
 - (e) trading:

Provided that where regulated business is carried out in more than one State, State-wise segmentation of the regulated business shall be given:

Provided further, that in case transmission and/or distribution of electricity is carried out under separate transmission and/or distribution licences within the same State, Licence wise segmentation of transmission and/or distribution business shall be given;

- (x) Accounting System followed for each segment of the regulated business, referred to clause (ix), and recording of the accounting separation information and reports, which may include list of cost and profit centres, linkages of financial heads to cost and profit centres;
- (xi) description of studies, surveys and model employed in cost apportionment and allocation process; and
- (xii) procedure for maintenance and updating Manual.

- (2) The utility shall subject the Accounting Manual to the Commission by the end of the financial year and all subsequent changes in the said Manual, together with the reasons thereof shall also be submitted to the Commission.

5. Periodicity of submission of Regulatory Accounts

- (1). The Utility shall submit the Regulatory Audited Accounts every year within seven months of the end of the Financial Accounting Year to the Commission in accordance with the formats appended to these regulations.
- (2). The reports referred to in sub-regulation (1) shall be submitted in hard copy and in soft copy in MS Excel format along with its formulae and linkage;

6. Audit

- (1) Every Utility, to which this Regulation applies, shall appoint an auditor who is qualified for appointment as an auditor under sections 138, 139, 141, 142 or 148 of the Companies Act, 2013 to audit the reports prepared by the Utility under this regulation and obtain an Audit Report from the Auditor in the Annexure A
- (2) The auditor shall audit the Regulatory Accounting Reports prepared by the Utility.
- (3) The auditor in his report shall express an opinion as to whether the Regulatory Accounts have been prepared in accordance with the applicable Tariff Regulations as well as these regulations and he has received all information and explanation necessary for the purpose of audit.

7. Maintenance of Information

- (1) Every Utility shall maintain segregated financial, operational and accounting information with supporting vouchers and journal entries including Allocation Statement based on actual in respect of the Regulated Business and Other Business.

Explanation-1 The accounting and reporting arrangements shall be maintained in such a manner that they can be verified at final accounts level. Data maintained in the formats as per the Appendix shall provide information in the most understandable manner, without sacrificing relevance or reliability.

Explanation- 2 For normative figures in Regulatory Accounts, such as Interest on Working Capital, Interest on Normative Loans, if any, Depreciation, etc. the information as specified in the formats in the Appendix shall be maintained separately.

- (2) Notwithstanding anything contained in sub-regulation (1), the Commission may direct that further or more detailed information may be required to be maintained by every Utility for their Regulated Business.

8. Basis of Preparation

- (1) Every Utility shall prepare the Regulatory Accounts as per formats appended to these regulations under the historical Cost Convention in accordance with the provisions of the Act and the Regulations made by the Commission, Generally

Accepted Accounting Principles in India, applicable Accounting Standards as notified under (relevant provisions of the Companies Act, 2013 as well as Electricity (Supply) Annual Accounts Rules, 1985 if applicable). Where there is an inconsistency between the above mentioned principles, etc. and/ the Act or the regulations made by the Commission treatment of items in the Regulatory Accounts shall be given as per these Regulations made by the Commission.

- (2) The Utility shall follow the Accounting Policies for Regulatory Accounts and the Standard Chart of Accounts while preparing the Regulatory Accounts as per the formats appended to these regulations. In case the Profit and Loss Account and the Balance Sheet does not comply with any of the Accounting Standards, a disclosure to the effect shall be made in notes to accounts, including the deviation from the Accounting Standard, reasons for such deviation and the financial effect of the same.

9. Accounting Policies for Regulatory Accounts

(1) FIXED ASSETS

- (a). Value of fixed assets shall be at cost(as per the Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010 formulated in pursuance to unbundling of the erstwhile Himachal Pradesh State Electricity Board, subject to adoption of the same by the Commission for the purpose of tariff determination.
- (b). In case of transfer of one entity to another, fixed assets shall be carried at historic cost/ cost allowed by the Commission.
- (c). Addition to the fixed assets shall be stated at cost of acquisition or construction including any cost attributable to bringing the assets to their working condition for their intended use and actually put to use for the benefit of consumers (subject to certain exceptions like machine spares, etc.), as allowed by the Commission. The date on which the asset is put to use can be the Commercial Operation Date (COD) of the last Unit of the Generating Station for a Generation Company or the date of charging the asset with the rest of the network for a Transmission Licensee or a Distribution Licensee.
- (d). The Generation Company or the Transmission Licensee shall separately indicate the addition of fixed assets in respect of renovation and modernization of fixed assets resulting in increase in life and/or efficiency of existing assets:

Provided that, where any special allowance has been claimed for renovation and modernization of any fixed asset, in accordance with any Regulations notified by the Commission, the Generation Company or the Transmission Licensee shall separately indicate the addition of fixed assets in respect of renovation and modernization of such fixed assets.

- (e). All Grants received from Central Government or State Government or any other source and Consumer Contribution received from consumers for capital expenditure shall be reduced from the value of fixed assets for the creation of which these funds have been used. In case the entire asset is funded out of such Grants or Consumer Contributions, then the fixed asset shall be shown in Regulatory Accounts at zero value. In case grants from Central Government or State Government or any other source are received for capital expenditure with

caveats which require the Generation Company or the Licensee to achieve certain milestones, such grants shall be reduced from the value of fixed assets after achieving the milestones. Till that time, the full value of fixed assets shall be shown in the Regulatory Accounts.

- (f). Wherever considered appropriate and necessary by the Commission, the Generation Company or the Transmission Licensee shall also be required to provide the asset wise break up of cost (consisting of Base Cost, Interest During Construction, Incidental Expenditure During Construction and other cost, if any), asset wise liability incurred, asset wise accumulated depreciation charged till date, and asset wise depreciation charged in the Financial Accounting Year for the purpose of Regulatory Accounts.
- (g). Fixed assets which do not have the approval of the Commission shall be shown separately in the fixed assets schedule. Appropriate justification for necessity of such fixed assets shall be given in the Notes to the Regulatory Accounts.
- (h). The Generation Company or the Licensee shall capitalise assets to be charged at high voltage or extra high voltage after getting the certificate from the Electrical Inspector: in accordance with Rule 63 of the Indian Electricity Rules, 1956 or any corresponding Rule made under the Electricity Act 2003.
- (i). Where the Commission has given year wise approval for capitalization in the beginning of MYT Control Period such amount shall be shown separately in the notes to the Regulatory Accounts.
- (j). Amount of spares capitalized and its percentage in the cost of fixed assets shall be shown separately in the notes to the Regulatory Accounts.
- (k). Un-discharged liability shall be shown in the fixed asset schedule.
- (l). Variance analysis between the actual capitalization and the capitalization approved by the Commission shall be shown in a separate schedule/notes to schedule along with brief reasoning justifying the variance.
- (m). In case of Generation Utilities, income from sale of infirm power prior to the date of commissioning, after accounting for the fuel charges (both primary fuel charges and secondary fuel charges) shall be reduced from fixed assets and the adjustment shall be shown in the fixed assets schedule.
- (n). Amount of capitalisation carried out in pursuance to arbitration, court order, change in law shall be shown separately in notes to the fixed assets schedule.
- (o). Details such as Gross block, depreciation for the year, accumulated depreciation and net block shall be provided for each of the above mentioned Items.
- (p). Fixed assets common to more than one Business of the Licensee or Generation Company shall be apportioned between the different Businesses based on the Allocation Principles as appended to the Regulation.
- (q). Any expenditure on replacement, renovation and modernization or extension of life of old fixed assets shall be considered after writing off the gross value of such replaced/de-capitalised fixed assets from the original capital cost, except for the assets that have been entirely funded out of Grants or Consumer Contribution,

where the original asset would be shown at zero value. The Equity portion attributable to replaced/de-capitalised in the Regulatory Accounts shall also be deducted. Specific debt, if any, outstanding corresponding to the replaced old asset shall be deducted from the debt outstanding in the Regulatory Accounts, to the extent set off by sale of the old replaced asset as scrap.

(2) CAPITAL WORK IN PROGRESS

The Capital Work in progress shall be stated at cost inclusive of all direct and proportionate overhead costs incurred.

(3) DEPRECIATION

- (a). Depreciation on fixed assets in the Regulatory Accounts shall be charged as per the Tariff Regulations notified by the Commission.
- (b). All fixed assets, except land, which is a non-depreciable asset, shall be depreciated up to 90% of the original cost, on straight line method, at rates prescribed under Tariff Regulations notified by the Commission.
- (c). In case of fixed assets added during the year, pro-rata depreciation shall be allowed for the first year.
- (d). Depreciation shall continue only till writing off of 90% of the original cost of the fixed asset or till the asset is permanently ceases to be in use, whichever is earlier.
- (e). In case of replacement of an old asset, the accumulated depreciation corresponding to the asset shall also be deducted from the total accumulated depreciation. Proportionate adjustment in Cumulative Repayment shall also be made.

(4) ADVANCE AGAINST DEPRECIATION

Advance Against Depreciation, if any, shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.

(5) EXPENDITURE ON PROJECT IDENTIFICATION, SURVEY AND FEASIBILITY STUDIES

- (a). Expenditure incurred on identification, survey and feasibility studies of a project before the project is considered for sanction or rejection shall be accumulated in an account provided for this purpose.
- (b). If the project is found infeasible, the full amount of expenditure shall be charged to revenue as in-fructuous capital expenditure in the year in which the project is rejected.
- (c). If the project is found feasible, it shall be submitted to the Commission for approval. Upon approval of the Commission, the expenditure shall be charged to Capital Work-in-Progress account for that project. Any expenditure incurred on detailed feasibility studies etc. after a project is sanctioned shall also be charged to the Capital Work-in-Progress account for that project.

- (d). The aggregate of the expenditure incurred before and after the sanction of the project shall be allocated to the assets capitalized under the project based on appropriate cost driver.

(6) EXPENSES CHARGEABLE TO CAPITAL WORKS

All the expenses, such as Employee Expenses, Administration and General Expenses, Interest Expenses etc., in respect of construction of fixed asset shall be fully charged to the cost of fixed assets. At O&M-cum-capital location (where both capital and Operational and Management work is being carried out) only the following expenses shall be capitalized:-

- (a). Insurance on assets under construction.
- (b). Legal charges and stamp fees in connection with agreement with capital suppliers/contractors.
- (c). Fees payable to foreign technician for capital project.
- (d). Expenses incurred for foreign technician for capital project.
- (e). Technician documentation and design charges.
- (f). Other consultancy charges directly related with project (which includes architectural fees).
- (g). Power consumed for construction.
- (h). Cost of hiring vehicles and equipments for the project.
- (i). Other costs directly related to the project

No part of any other administration and general expenses, which is related to Operation and Maintenance of existing assets, shall be charged to capital works.

(7) CAPITALISATION OF DEPRECIATION

Depreciation on fixed assets used for construction of other assets (e.g. depreciation on vehicles transferred to a project, depreciation on building, furniture & fixtures, vehicles and office equipment at the construction division or construction circles) shall be charged to capital works.

(8) NO CAPITALIZATION OF LOSSES

- (a). The losses incurred such as irrecoverable advances to contractors, loss of assets or damage to assets at construction stage, shortage observed upon physical verification of stores at construction division, etc. during the construction of the fixed asset shall not be charged to the cost of fixed assets.
- (b). Such losses shall be charged to the Profit and Loss Account for the year in which such losses are incurred.

(9) LAND AND LAND RIGHTS

- (a). All expenses incurred for bringing the land to a usable condition shall be charged to the cost of land. An indicative list of such expenses is as under-

- (i) Purchase price of land
- (ii) Compensation for acquisition of land
- (iii) Compensation for trees and crops on the acquired land
- (iv) Land charges, stamp duty, etc. incurred in order to secure effective title
- (v) Land revenue and other taxes paid during the stage of land development
- (vi) Site preparation cost such as cost of levelling hills or filling low spots, cost of cleaning trees, etc.
- (vii) Cost of demolishing as unwanted structure if the land is acquired with structure.

Cost of land improvement having a limited life such as cost of landscaping, gardens, sidewall, fences and digging shall also be added to cost of land as “cost of land development”.

(10) BUILDINGS

- (a). All expenses incurred for bringing the building to usable condition shall be charged to the cost of building. An indicative list of such expenses is as under-
 - (i) Purchase price,
 - (ii) Expenses such as legal charges, stamps duty, etc., incurred for securing an effective title,
 - (iii) Repairs, alteration and improvements to put building in usable condition,
 - (iv) Architect’s fees for remodelling, alteration, improvement before the building is first put to use,
 - (v) Cost of obtaining permits, sanctioned plans occupation certificates from municipal or other bodies,
 - (vi) Architectural fees,
 - (vii) Insurance on uncompleted structure.
- (b). Cost of constructed building shall include the following item-
 - (i) Cost of construction comprising of materials, labour contractor charges and depreciation on construction machinery
 - (ii) Surveying
 - (iii) Cost of obtaining permits, sanctioned plans occupation certificates from municipal or other bodies iv. Architectural fees
 - v) Insurance on uncompleted structure
 - (vi) Cost of excavation (excavation is not a cost of land development).

(11) REPAIR BEFORE COMMISSIONING OF ASSETS

All expenses incurred on repairs or rehabilitation of fixed assets (second hand or new) before capitalization shall be charged to the cost of fixed assets.

(12) REARRANGEMENTS

All expenses on rearrangement (of plan layout, office layout etc.) shall be charged to revenue in the year in which the expenses are incurred.

(13) REPLACEMENTS

Replacement can be defined as 'substitution of one fixed asset by another, particularly of old assets by new assets, or of an old part by a new part' -

- (a). Expenses related to minor replacements shall be charged to revenue as Repair and Maintenance Expenses.
- (b). Expenses related to major replacement shall be capitalized.
- (c). The original cost of the replaced asset shall be withdrawn from the cost of total assets in Regulatory Accounts.
- (d). For the purpose of Regulatory Accounts, the Generation Company or the Licensee shall follow the same criterion for distinguishing between major and minor replacement as followed in the Statutory Accounts.

(14) PIECEMEAL REBUILDING

If an asset is rebuilt by replacement of its component over a period of time instead of at one time, the criteria fixed for 'minor' and 'major' replacements shall in such cases be applied to the aggregate of expenditure on replacement in an asset and accounted for accordingly.

(15) CONTRIBUTION, GRANTS AND SUBSIDIES TOWARD COST OF CAPITAL ASSETS

All Grants received from Central Government or State Government and Consumer Contribution received from consumers for capital expenditure shall be reduced from the value of fixed assets for the creation of which these funds have been used.

(16) FULL WRITE-OFF OF SMALL AND LOW VALUE ITEMS

- (a). Full cost of all small and low value assets each costing Rs. 5000 or less shall be fully charged to revenue in the year in which the assets are put to use.
- (b). No part of the cost of such item shall therefore be included in the cost of fixed assets nor shall any depreciation be charged thereon.
- (c). The policy for full write-off stated shall not apply to items included under the classification 'furniture & fixtures' and 'office equipment'. The accounting policy for write-off of small and low value assets shall not apply to cost of granting each service connection.

(17) PIECEMEAL BUILDING OF ASSETS

Assets may be completely built over a considerable period of the time rather than at one time. The cut-off criteria for write-off should in such cases be applied to the aggregate of expenditures and accounting for accordingly.

(18) COMMISSIONING OF ASSETS

- (a). All capital expenditure shall be accounted for through capital work-in-progress accounts.
- (b). On commissioning of the assets, the expenditure shall be transferred to appropriate fixed assets account, subject to fulfilment of the conditions of the Commission, like getting necessary approvals required (like certificate from Electrical Inspector in case of assets charged at high voltage or extra- high voltage in accordance with Rule 63 of the Indian Electricity Rules, 1956 or any corresponding rule made under the Electricity Act 2003) and other conditions in respect of expenditure and financing etc.

(19) CAPITALIZATION WHEN ASSETS ARE FIRST PUT TO USE

Assets shall be capitalized when they are first put to use. The date on which the asset is put to use can be the Commercial Operation Date (COD) of the last Unit of the Generation Station for a Generation Company or the date of charging the asset with the rest of the network for a Transmission Licensee or a Distribution Licensee.

(a). ASSETS WHICH ARE 'COMMISSIONABLE' BUT NOT ACTUALLY COMMISSIONED

- (1) An assets which is installed/constructed and is in 'commissionable' state, but it is 'not commissioned/put to use' shall not be capitalized until it is actually put to use for the benefit of consumers, except in case of initial spares.
- (2) All costs incurred on capital assets (including costs incurred on maintaining the assets which are ready but await the actual commissioning) shall be charged to the cost of the assets.

(b). NO WAITING FOR FINISHING TOUCHES

- (1) Cost of an assets incurred up to the stage of commissioning of the asset shall be capitalized when it is put to use for the benefit of consumers without waiting for any finishing touches which may not be significant in work and value.
- (2) Costs of such finishing touches when completed shall be accounted for and added to the cost of the assets capitalized earlier, subject to specific clauses of additional capitalization in the relevant Tariff Regulations of the Commission.

(20) CAPITALIZATION REGARDLESS OF DISPUTES WITH CONTRACTORS

- (a). Capitalisation shall be considered based on expenses incurred on capital assets that have been put to use, either on accrual basis or on cash basis, in accordance with the Tariff Regulations notified by the Commission.
- (b). Disputes with contractors/suppliers regarding the fulfilment of the terms and conditions of contract with them shall not be permitted to withhold or defer

capitalization of assets concerned, provided the asset is put to use for the benefit of consumers.

- (c). Cost of the assets determined on the basis of the contract shall be capitalized by making necessary provision by the Licensee or the Generation Company, subject to specific clauses of additional capitalization in the relevant Tariff Regulations of the Commission.

(21) ESCALATION CLAIM

Cost escalation claim made by suppliers and contractor shall be provided to the extent the claim is acknowledged by the Utility and cost of assets inclusive of such provision shall be capitalized when the asset is first put to use.

(22) CAPITALIZATION OF SPARE UNIT/SERVICE UNIT

Assets which are to be classified as spare units or service units, as approved by the Commission shall be capitalized when they are 'put into usable condition' regardless of whether they are actually used or not.

(23) DATE/VALUE OF ACQUISITION NOT KNOWN

- (a). In case of asset scrapped or destroyed or sold for which the date of acquisition is not known, it shall be assumed, for the purpose of withdrawal of cost of asset and depreciation, that the asset concerned was the oldest asset of that type in use at that accounting unit.
- (b). In case of asset scrapped or destroyed or sold for which the value of acquisition is not known, it shall be assumed, for the purpose of withdrawal of cost of asset and depreciation, that the salvage value of the scrapped or destroyed or sold shall be equal to the salvage value of a similar asset at that accounting unit at the time of scrapping the asset.

(24) LOSS OF ASSETS

In the event of loss or destruction of assets, the cost of such assets and the accumulated depreciation attributable to such assets shall be withdrawn from the value of total fixed assets and total accumulated depreciation respectively. Cumulative Repayment shall also be adjusted.

(25) WRITE-OFF OF LOSS

Excess of the written down value of the lost or destroyed assets over the amount of insurance claim granted shall be charged to revenue in the year in which the insurance claim is settled.

(26) CAPITAL SPARES AT GENERATING STATIONS

- (a). The capital spares at generating stations to the extent allowed in the Tariff Regulations notified by the Commission shall be treated as capital assets.
- (b). No accounting shall be done at the time of issue of such spares for replacement in the generating plant.
- (c). However, depreciation shall be charged on the total cost of the spares.

- (d). Depreciation on such spares shall be charged as per the Tariff Regulations notified by the Commission.

(27) SPARE UNITS/SERVICE UNITS

- (a). Depreciation on spare unit, installed with the approval of the Commission shall be charged in normal course as charged for the same type of assets which are in use.
- (b). When the original units are removed for repairs or maintenance and the spare units are installed, no accounting adjustments shall be done.
- (c). Expense on repairs or maintenance on the removed units shall be charged to revenue.
- (d). No accounting entry shall be done either
 - when the removed unit is put back into usable condition or
 - when it is actually used again in the place of some other units removed for repair or maintenance or
 - the repaired unit is installed back in its place and the spare unit installed earlier is removed and brought back to stores.
- (e). When the removed unit is considered irreparable, it will be considered to be a retired asset (if the estimated life is over) or scrapped assets (if estimated life is not over) and accordingly the subsequent accounting for retirement, scrapping and sale shall be done.
- (f). Simultaneously with retirement/scrapping of the original unit, the cost and accumulated depreciation on the spare unit shall be transferred to fixed assets account.

(28) TREATMENT OF INCOME FROM INVESTMENTS

- (a). Income from investment shall be credited to the revenue account for the year in which the income has accrued.
- (b). If the investments are held as earmarked investments against any fund such as pension fund, gratuity fund etc., the income from such investments shall be credited directly to the respective fund.

(29) TIMING OF ACCOUNTING FOR REVENUE

- (a). Revenue from sale of power shall be accounted for on accrual basis in cases whether the determination of retail tariff is done on the basis of distribution loss approach.
- (b). Reconciliation of actual collection, sales, and debtors shall be provided in the notes to the accounts.
- (c). Where the sale of energy prior to the end of a Financial Accounting Year has not been billed, a provision for such unbilled revenue shall be made at the end of Financial Accounting Year so as to treat the amount as revenue in the Financial Accounting Year in which supply of power shall be made.

(30) DISPUTED CLAIMS UNDER WARRANTY FOR REPAIRS

- (a). Claims made for repair of capital equipments by Licensee or Generation Company to the suppliers or contractor of capital equipment for reimbursement of expenditure, if disputed, shall be fully charged to revenue account in the Financial Accounting Year in which the expenditure is incurred.
- (b). Reimbursement when granted by the supplier or contractor of such capital equipment shall be credited to revenue account in the Financial Accounting Year in which the receipt of reimbursed amount is made.

(31) CASH DISCOUNT

Cash discounts earned by the Licensee or the Generation Company on making timely or early payments to supplier/contractor shall be reduced from the cost of the assets.

(32) INTANGIBLE ASSETS

Cost of Goodwill etc. shall not be considered for tariff determination in Regularly Accounts.

(33) INVESTMENTS

- (a). Investment and income there from made out of retained return on investment will not be considered in the regulatory accounts, unless they are re-invested in the regulated business.
- (b). Income from Investments made against approved Contingency Reserve and from investments made out of Regulated Business shall be considered as Non Tariff Income in Regulatory Accounts.

(34) EQUITY

- (a). Where the actual equity including the retained profit invested in the Regulated Business is less than normative equity as per Tariff Regulations, actual equity shall be considered in the Regulatory Accounts.
- (b). Where the actual equity including the retained profit invested in the business is more than normative equity as per Tariff Regulations, the difference between actual and normative equity shall be treated as normative loan and interest shall be allowed on the normative loan as per the Tariff Regulations of the Commission.

(35) RETURN ON EQUITY OR CAPITAL EMPLOYED

Return on Equity / Capital Employed shall be shown in the Regulatory Accounts as per the appropriate provisions of Tariff Regulations:

Provided that where Return on Capital Employed is allowed by the Commission, interest on loans shall not be shown in Regulatory Accounts.

(36) TAXES ON INCOME

In case the RoE/RoCE is allowed on post-tax basis:

- (a). Income Tax paid or payable by the Licensee or the Generation Company, at actuals, on the income stream from the Regulated Business shall be considered in Regulatory Accounts.
- (b). Income Tax on the amount of efficiency gains or incentives shall not be considered in Regulatory Accounts.

OR

In case the RoE/RoCE is allowed on pre-tax basis:

- (a). Income Tax shall be shown as a part of RoE or RoCE in the Regulatory Accounts and shall not be shown separately.

(37) OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance Expenses shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.

(38) LEASEHOLD LAND

- (a). Leasehold land is depreciated over the period of lease as per the terms and conditions of the Lease Agreement.
- (b). Lease rental shall be charged to Profit and Loss Account under Administrative & General Expenses as payable, for the actual life of the Project.

(39) LOANS/BORROWINGS

Under audited accounts, actual details of the loans are available based on the actual disbursement of loan and repayment made by the entity. However, in Regulatory Accounts the amount of loan approval depends upon the funding pattern approved by the Commission, subject to the Debt-Equity norm, which is further determined by the capital expenditure approval by the Commission. Where the actual details of loan are not available, the Commission usually allows the loans on normative basis including the period of loan and the repayment schedule which is invariably matched with the depreciation of the fixed asset for which the loan is availed. Very often, there are variations in the actual terms of loan as against the norms approved by the Commission including floating rate of interest, moratorium period of repayment, etc.

(40) BORROWING COST

- (a). Capitalization of Interest Expenses on loans shall be limited to the amount approved by the Commission.
- (b). All Interest Expenses prior to capitalization of assets shall be considered as Interest During Construction (IDC) and shall be transferred to Capital Work in Progress (CWIP) corresponding to respective assets for capitalisation.

(41) FOREIGN EXCHANGE RATE VARIATION

- (a). This will be in accordance with the notified Tariff Regulations.
- (b). In the absence of any specific provision in this regard in the Tariff Regulations notified by the Commission, the following approach shall be followed:

- (i) The Licensee or the Generating Company may hedge foreign exchange exposure in respect of the interest on foreign currency loan and repayment of foreign loan acquired for the licensed business or the generation business, in part or full in the discretion of the Licensee or the Generating Company.
- (ii) Every Licensee or the Generating Company shall recover the cost of hedging of foreign exchange rate variation corresponding to the foreign debt, in the relevant year on year-to-year basis as expense in the period in which it arises and extra rupee liability corresponding to such foreign exchange rate variation shall not be allowed against the hedged foreign debt.
- (iii) To the extent the Licensee or the Generating Company is not able to hedge the foreign exchange exposure, the extra rupee liability towards interest payment and loan repayment corresponding to the foreign currency loan in the relevant year shall be permissible provided it is not attributable to the Licensee or the Generating Company or its suppliers or contractors.

(42) WORKING CAPITAL LOANS AND INTEREST ON WORKING CAPITAL

- (a). Working Capital Loans shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.
- (b). Interest on Working Capital shall be shown in the Regulatory Accounts as per the appropriate provisions of Tariff Regulations.

(43) INTEREST ON SECURITY DEPOSIT

Interest on Security Deposit shall be computed and shown in accordance with the provisions of Tariff Regulations notified by the Commission. The details of computation shall be shown in Notes to Accounts.

(44) CONTRIBUTION TO CONTINGENCY RESERVE

Contribution to Contingency Reserve shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.

(45) INCENTIVE/ (DISINCENTIVES) FOR PERFORMANCE PARAMETERS AND EFFICIENCY GAINS/ (LOSSES)

- (a). Incentive and Disincentives for Performance Parameters such as Plant Availability Factor or Plant Load Factor for Generation Companies, Availability for Transmission Licensees, Wires Availability and Supply Availability for Distribution Licensees shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.
- (b). Incentive and Disincentives for Efficiency Gains/ (Losses) attributable to factors like O&M Expenses, Distribution Losses, etc. shall also be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.

(46) DEEMED GENERATION

This shall be in accordance with the notified Tariff Regulations of the Commission.

(47) TRUING UP

Where the Commission has provided for truing up in its Tariff Regulations, the corresponding year-wise amount accrued up to the date of accounts will be shown in the notes to accounts.

(48) SALES FOR THE YEAR

- (a). Generation:- The Million Units (MU) sold and income there from shall be provided in sales schedule for each generating station.
- (b). Distribution:- Category wise units sold and income there from should be shown separately in the sales schedule for each licensee/licence area. Units sold under banking arrangement and income considered there from should also be shown separately. Income in the form of penalty from consumers for pilferage of electricity and the assessed units of pilferage based on which the penalty has been charged shall be shown separately.
- (c). Transmission:- The Section/Licence area wise MU wheeled and income there from should be given separately.

(49) NON-TARIFF INCOME

Non-Tariff Income, attributable to the Regulated Business shall be considered for reduction in Annual Revenue Requirement of the Licensee or the Generation Company in the Regulatory Accounts.

(50) OTHER BUSINESS INCOME

Other Income shall be considered for reduction in ARR of the Licensee in the Regulatory Accounts, as per the appropriate provisions of Tariff Regulations or where there are no regulations, the Commission may do so by reasoned order.

(51) PRIOR PERIOD ITEMS

Prior Period Income and Prior Period Expenses shall be shown in Regulatory Accounts.

(52) REGULATORY ASSETS

- (a). This shall be in conformity with the Tariff Regulations notified by the Commission.
- (b). In the absence of any specific provisions in the Tariff Regulations notified by the Commission, the following approach shall be adopted:
 - (i) The total amount of outstanding Regulatory Asset at the end of the year shall be shown, as a separate entry, under the Assets side of the Accounts.
 - (ii) The period of amortisation of the Regulatory Asset and the carrying cost of the Regulatory Asset, as stipulated by the Commission in the Regulations or any other Order in this regard, shall be explained under the Notes to the Accounts.
 - (iii) For every year of amortisation, the amount of Regulatory Asset amortised during the year as approved by the Commission and the carrying cost allowed by the Commission on the balance Regulatory Asset shall be shown under the Revenue side, once the Utility is allowed to bill the same to the consumers.

(53) CARRYING COST

Carrying Cost shall be shown in Regulatory Accounts, as approved by the Commission.

(54) OTHER EXPENSES/EXCEPTIONAL ITEMS/EXTRA ORDINARY ITEMS

Such items of expense shall be shown in Regulatory Accounts, as approved by the Commission.

(55) PROFIT SHARING

This shall be in accordance with the applicable Sharing Mechanism specified in the Tariff Regulations of the Commission and shall be reflected in the notes to the accounts.

(56) TREATMENT OF REVENUE SUBSIDY BY STATE GOVERNMENT AGAINST SALE OF POWER

Any Subsidy given by the State Government to any consumer or class of consumer under Section 65 of the Act shall be considered as revenue to the extent of the billing done to the consumer.

(57) BANKING ARRANGEMENT

Power Banking transactions shall be recorded at the rate as per prevailing directives of the Commission. Where there are no specific directions from the Commission, these power banking transactions shall be recorded as per the terms of the agreement.

(58) ITEMS TREATED ON CASH BASIS

Items like delayed payment surcharge, revenue from penalty, theft detected, etc., which are generally accounted for on cash/realization basis, shall be clearly mentioned in notes to accounts by the Utility.

(59) PROVISIONS MADE AGAINST BAD & DOUBTFUL DEBTS

This shall be in accordance with the applicable Tariff Regulations/directives of the Commission. Actual Bad debts written off as per audited accounts shall be deducted from the amount of provisioning.

(60) INVENTORY

Unless otherwise provided by the Commission, 100% provisioning shall be made for the non-moving stock lying for more than 3 years and 50% provisioning shall be made for the non-moving stock lying for more than 2 years.

(61) RETAIL AND WHEELING BUSINESS

Bifurcation of the accounts including Schedules between retail and wheeling business shall be shown separately with basis of bifurcation for each item in line with the applicable Tariff Regulations/directives of the Commission.

10. Segregation of Distribution Business ARR into Wires Business and Supply Business

Wires Business is the business of owning and operating of the distribution system, while Retail Supply Business is the business of procuring the requisite power through longterm,

medium-term, and short-term power purchase contracts for supplying to its consumers. The different components of Distribution on ARR shall be allocated to Wire and Retail Supply business in the following ratios/ basis:-

(a). Power Purchase/Transmission/SLDC- Expenses related to the Supply Business. Therefore, these should be allocated to Supply Business ARR.

(b). Employee Expenses:- Direct employees for Wires Business and Supply Business should be identified first and Employee Expenses related to these direct employees should be allocated to respective businesses. Thereafter, all common Employee Expenses relating to employees working for both the businesses can be apportioned between Wires Business and Supply Business using the allocation principles specified for apportionment of common Employee Expenses. However, till the time the segregation is complete, the Distribution Licensee may apportion the Employee Expenses between Wires Business and Supply Business using an appropriate ratio. Universal electrification in the highly dispensed habitations involving huge network and systems and geographical and climatic conditions demand very large manpower for O&M and hence more employees are employed for Wires Business and the employees who work for Supply Business are lower as compared to Wires Business, the proportion of employee cost allocated to Wires business and Supply business may be 80:20.

(c). Repair and Maintenance Expenses:- Cost of spares, fuel etc. and cost of services related to wires business and supply business need to be separately recorded. Thus all direct R&M Expenses related to Wires Business and Supply Business may be allocated to the respective businesses. Thereafter all common R&M expenses can be apportioned between Wires Business and Supply Business using the allocation principles specified for apportionment of common R&M Expenses. However, till the time the segregation is complete, the Distribution Licensee may apportion the R&M Expenses between Wires Business and Supply Business in the ratio 95:05.

(d). Administration and General Expenses:- All expenses like rents, electricity charges, water charges, internet charges, office upkeep , insurance charges etc. relating to offices for distribution business should be allocated to Supply Business, while that relating to distribution sub-stations/receiving stations should be allocated To Wires Business. Rates and taxes, Freight, and other purchase related expenses need to be allocated based on the goods purchased – whether for Wires Business or for Supply Business. All other A&G expenses, which are common to both Wires Business and Supply Business can be apportioned using the allocation principles discussed for apportionment of common A&G Expenses. However, till the time the segregation is complete, the Distribution Licensee may apportion the A&G Expenses using the ratio 65:35.

(e). Depreciation:- Major portion of assets of Distribution Licensee would be relating to Wire Business, as sub-stations, HT and LT lines are for wheeling of electricity. Only the service connections and consumer meters, which are in the books of Distribution Licensee should be allocated to Supply Business. Thus, if asset class wise break up of assets relating to Wires Business and Supply Business are available, then depreciation relating to direct assets of Wires Business and direct assets of Supply Business should be allocated to respective businesses. Depreciation on any common asset, if any can be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common depreciation. However, if only the overall asset break-up between Wires business and Supply business is available, then the depreciation

has to be apportioned in the same ratio. Till the time the segregation is complete, the Distribution Licensee may apportion depreciation for distribution business in the ratio 95:05.

(f). Interest on Loans:- All new loans availed by the Licensee should be separate for Wires Business and Supply Business, based on the funding of the assets for Wires Business and Supply Business. In this way, interest on loans for Wires Business and Supply Business will be clearly identifiable and these should be allocated to respective businesses. Other interest charges, which are common to both Wires Business and Supply Business should be apportioned using the allocation principles discussed for apportionment of common Interest and Finance Expenses. However, till the time the segregation is complete, the Distribution Licensee may apportion interest on loans between Wires Business and Supply Business in the ratio 95:5.

(g). Interest on Working Capital:- All new Working Capital loans availed by the Distribution Licensee should be separate for Wires Business and Supply Business. In this way, interest on Working Capital loans for Wires Business and Supply Business will be clearly identifiable and these should be allocated to respective businesses. Other interest on Working Capital which are common to both Wires Business and Supply Business can be apportioned using the ratio 05:95, as major portion of Working Capital loans belongs to supply business.

(h). Interest on Security Deposit:- Security deposits are collected by Distribution Licensees from the consumers for supplying electricity to them, hence, the interest on Security Deposits should be allocated entirely to the Supply Business.

(i). Provision for Bad Debts:- Major part of bad debts relates to supply business and hence may be allocated to the Supply Business 05:95.

(j). Return on Equity:- RoE for both the businesses should be allowed based on the Equity invested separately for both the functions. Common RoE, if any should be apportioned between Wires Business and Supply Business using the allocation principles discussed for apportionment of common RoE. In case equity invested for both the functions cannot be segregated clearly or till the time the segregation is complete, RoE can be apportioned between Wires Business and Supply Business using the proportion of GFA between Wires Business and Supply Business or using a suitable ratio 100:00.

(k). Income Tax:- Tax is a function of profit earned, i.e. return of a business, therefore, it should be apportioned on the basis of RoE related to Wires Business and Supply Business, as discussed for apportionment of Income Tax.

(l). Non Tariff Income:- Non Tariff Income resulting from meter rent, delayed payment charges, service connection charges etc. should be allocated to Supply Business, while income resulting from sale of scrap etc. should be allocated to Wires Business. Other common items of Non-tariff Income, if any can be apportioned using the allocation principles specified for apportionment of revenues. However, till the time the segregation is complete, the Distribution Licensee may apportion the Non-Tariff Income between Wires Business and Supply Business using the ratio 0:100.

11. **Power to issue directions-**

If any difficulty arises in giving effect to these regulations, the Commission may on its own motion or on an application filed by any affected party, issue such directions as may be considered necessary in furtherance of the objective and purpose of these regulations.

12. **Power to relax-**

The Commission may by general or special order, for reasons to be recorded in writing, and after giving an opportunity of hearing to the parties likely to be affected by **grant of relaxation**, may relax any of the provisions of these regulations on its own motion or on an application made before it by an interested person.

By order of the Commission

Sd/-
Secretary

ANNEXURE- A

(See Regulation (1) of Regulation 6)

FORM OF AUDIT REPORT ON HIMACHAL PRADESH ELECTRICITY REGULATORY COMMISSION (REGULATIONS ON POWER REGULATORY ACCOUNTING) REGULATION, 2014

I/We, _____ having been appointed as the Auditor(s) under the requirements laid down in the Himachal Pradesh Electricity Regulatory Commission (Regulations on Power Regulatory Accounting) Regulation, 2014 issued by _____ H.P Electricity Regulatory Commission by _____ (mention name of the Entity) having its registered office at _____ (mention registered office address of the entity), have audited the attached Regulatory Accounts covering _____ (mention name of the service/ geographical area) for the year ended _____ (mentioned the accounting Year) of the Entity.

1. The Entity is responsible for preparation of the Regulatory Accounting Reports. My/ Our responsibility is to audit the Regulatory Accounting Reports in accordance with the Regulations and generally accepted Auditing standards in India.
2. Further to my/our comments/observations given in the enclosed Annexure (Annexure is required in case there are comments/observations on Regulatory Accounting Reports), I/We report that:
 - a) I / we have received all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit.
 - b) In my / our opinion proper books of account have been kept by the Entity so far as appears from my / our examination of those books to enable the preparation of complete and proper Regulatory Accounting Reports in accordance with the Regulations.
 - c) The Regulatory Accounting Reports for the year ended _____ are in agreement with the books of accounts and have been properly drawn up in accordance with the Regulations and the methods and basis laid down in the Manual of the Entity prescribed under the Regulations.
 - d) In my/our opinion, and to the best of my/our information and according to the explanations given to me/us, the Regulatory Accounting Reports for the year ended _____ provide the information as per the requirement of the Regulations and represent a true and fair view in conformity with the framework as per the Regulations.
3. I/ We also report that all changes to the Manual prescribed under the Regulations that materially affect the Regulatory Accounting Reports for the year ended _____ have been filed with the Commission by the Entity.

Dated:

Place:

Signature

Name of Proprietor/Partner

Membership No.

Name of the Firm with Stamp (Seal)

Note: 1. The Field marked with * to be submitted Generation Station wise.

2. The Field marked with # to be submitted Transmission Line/Sub-Station wise or for the entire Transmission System, which ever is applicable.