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MAHARASHTRA ELECTRICITY REGULATORY COMMISSION (GUIDELINES FOR ALLOCATION OF ASSETS AND COST AT DIFFERENT VOLTAGE LEVELS OF DISTRIBUTION)

STATEMENT OF REASONS

Dated: 21 July, 2022

1 Introduction

1.1. The Distribution Licensees undertake two distinct businesses viz. the Wheeling business (or the Wires business) and the Supply business (or the Retail business). The Wires business pertains to the distribution network related activities of the distribution licensee i.e. developing the distribution network and operating and maintaining the same. The Supply business pertains to the business of buying and selling of electricity, undertaking consumer metering, billing and payment collection related activities and installing, operating and maintaining assets related to such activities.

1.2. The Commission has, since the framing of the MYT Regulations, 2011, been determining the Wires and Supply ARR of the Distribution Licensees separately and using the Wires ARR to determine the wheeling charges. Through these actions, the Commission has attempted to ensure that the costs of Wires business and Supply business are fairly segregated, to the extent possible. Within the Wires business, the Commission has attempted to segregate the costs in a voltage-wise manner, so that the costs pertaining to different voltage levels are allocated to the users of such voltages in a manner that reflects causation and high voltage users are not made to bear the costs pertaining to lower voltages.

1.3. In order to allocate the Wires cost into voltages, the Commission has been using the ratio of assets at EHT, HT and LT voltages, as traditionally, the Distribution Licensees do not record their costs in a voltage-wise manner – in many cases. The ratio of assets methodology for voltage-wise allocation of Wires cost has been in use for several years now. A Petition was filed by Tata Power Company pointing out that different Licensees have been using different approaches to allocate their network assets among voltage levels, which finally culminated into the Commission ruling that a study is required to understand various practices and approaches adopted domestically and internationally in this regard and on the basis of the same, develop an approach to be adopted uniformly by all distribution licensees.

1.4. Accordingly, the Commission undertook the said study, on which basis a revised approach for allocation of network assets and costs pertaining to wires business of distribution licensees was recommended in the form of draft Guidelines, along with an Explanatory Memorandum (EM), vide publications dated 18 April, 2022.

1.5. The Commission has attempted to formulate the said Guidelines on the fundamental principles of cost causation i.e. the assets shall be allocated to users on the basis of usage and need, instead of merely voltage rating. Further in the draft Guidelines, guidance for allocation of assets into Wires and Supply and thereafter allocation of Wires assets into different voltage classes had been specified. Being conscious of the fact that there are many assets which are common to the two businesses of Wires and Supply and further even within Wires, there could be assets common to the users across all voltage levels, the draft Guidelines specified the principles of allocation of these assets over different voltage levels, for the business drivers which directly influence creation of such assets in the first place. Further, the Commission has not limited itself to identifying merely a ratio for allocation of Wires ARR into EHT, HT and LT voltages, but instead the Commission has specified the allocation of each element of Wires cost into these voltage levels.

1.6. The Commission is of the view that through the use of the Guidelines, the costs of Wires business would be more fairly allocated over the users of Wires business, thereby reducing indirect cross-subsidisation existing between the users of different voltage levels. Further, with the uniformity achieved among the different distribution licensees, the same principles of cost allocation would apply to a given voltage user located anywhere in the State. This standardisation is particularly important in areas with more than one distribution licensees present, so that their tariffs for network services are determined using the same principles and there is no distortion in competition on account of competing licensees using different principles of cost allocation for determining tariffs.

1.7. The outcome of these Guidelines would thus be that each Distribution Licensee shall be filing its Wires ARR segregated into the different voltage levels of EHT, HT and LT. The Commission understands that some of these changes require cleaning up and organising the accounts, particularly, the Fixed Asset Register (FAR) of the Distribution Licensees and had therefore proposed that the Guidelines shall be applied for determination of Wheeling Charges from 01.04.2025, thereby allowing time to the Distribution Licensees to organise their accounts and asset records to comply with the Guidelines.

1.8. The stakeholder consultation process on the draft Guidelines and the associated Explanatory Memorandum was initiated on 18 April 2022 and time was allowed till 13 May 2022 for submission of comments. The Commission has received comments from MSEDCL, TPC, AEML, BEST and certain industrial consumers. The full list of stakeholders who offered their comments/suggestions on the draft Regulations and Explanatory Memorandum, which have been considered by the Commission while finalising the Regulations, is placed at **Annexure-I**.

1.9. The main comments and views expressed by the stakeholders through their written submissions and the Commission's views thereon have been summarized in the following paragraphs. It may be noted that all the suggestions given by the stakeholders have been considered, and the Commission has attempted to elaborate all the suggestions as well as the Commission's decisions on each suggestion in the Statement of Reasons, however, in case any suggestion is not specifically elaborated, it does not mean that the same has not been considered. Further, some stakeholders have suggested changes on Syntax/phrase/addition of word(s)/rewording related changes, cross-references, etc., which have been suitably incorporated, wherever necessary.

1.10. This Statement of Reasons (SoR) is structured on an issue-wise / subject-wise basis i.e. on each main issue / subject, the views as expressed by different stakeholders are summarised along with the Commission's analysis and outcome.

2 Summary of comments and Commission's analysis

2.1 Formation of purpose-based asset bundles for wires function (Clause 2.3)

2.1.1 Proposed in Draft Guidelines

"2.3 The identified asset groups and bundles and indicative list of individual same-purpose assets to be included in the corresponding bundle shall be as indicated below:

Main Group	***Suggested bundle***	***Inclusions***
Boundary assets	***Distribution Substation (33/11kV or 22/11kV or 33/22kV or Multi-winding)***	*Power Transformer, all associated civil structures, land, cables and wiring, relays, switchgear, control panels, lightning arrestors, capacitor banks, station batteries, station transformers, earthing equipment and all other appertuant apparatus being part of the substation*
Boundary assets	***Consumer Substation (11/0.4kV or 22/0.4 kV or 33/0.4 kV)***	*Distribution Transformer, all associated civil structures, associated land, relays, cables and wiring, if any, switchgear, control panel, capacitor banks, earthing equipment and other appertuant apparatus, being part of the substation*
Voltage Identifiable	***Line – 33kV Line – 11kV Line – LT (depending upon voltage rating)***	*Overhead Line and associated towers, tower plinth, insulators, gantry and other installed equipment*
		Underground cable and cable ducts, if any
		Relays, if any, installed
Voltage identifiable	***Grid Meters***	*Grid Meters as per voltage of installation*
		Meter housing, boards
		Metering accessories, CT/PT and associated wiring
Common to Voltage	***Others***	*Maintenance vehicles*
		SCADA, DMS, OMS, Network Planning software and hardware
		Tools and equipment not voltage specific

2.1.2 Comments Received

AEML has expressed certain difficulties in identifying and grouping same location, same purpose assets such as buildings, furniture, office equipment, etc. As per AEML's submission, there could be certain buildings which are actually substation buildings but are generally grouped under "Land and Buildings" and it is not identifiable as substation building or an administrative office building. Similarly, grid meters may not be identifiable and separable from "meters" in general. Also, in certain cases, the expenditure associated with cable safeguarding, joints, glands and terminations used for cables are not identifiable as associated with specific cables and because specific cable and its corresponding voltage level is not known, voltage-identifiability is limited for such works / asset

MSEDCL has submitted that it may be allowed to submit its asset classification as per the existing method for all assets capitalised upto 31.03.2022 and only thereafter it shall be able to identify and segregate assets as per the guidelines, for which necessary arrangement is being made in the SAP system. However, it requested to be exempted from submitting alternative calculation of wheeling charges as per proposed methodology in the said guidelines.

BEST has submitted that it has historically been operating 110/33kV and 110/11kV substations, which have been recognised by the Commission as being part of the distribution system, vide its ruling in Case No. 58 of 2005. Hence, these substations are part of distribution system of BEST and should be allocated as per secondary side voltage. BEST has further submitted that under "Voltage identifiable" assets shown in Clause 2.3 of the draft Guidelines, distribution pillars, tiles, joints, etc. should also be included. It has further submitted that "switchgear" should be removed from Consumer Substation.

2.1.3 Analysis and Commission's Decision

The Commission realises that due to legacy issues and the fact that asset records prior to digitisation were all manually recorded and during digitisation proper information regarding the asset description may not have been captured in the system, rendering some of such assets such as buildings, furniture, office equipment, meters etc. not identifiable as to whether it houses a substation or an administrative office. Different licenses may have different issues in this regard and different extent of non-identifiability of assets in the manner proposed under the draft Guidelines. Due to the varying nature of the problems in this regard, the Commission cannot issue any generalised work-arounds in this regard and would require each Licensee to therefore carry out the asset segregation as per the proposed guidelines and wherever there are difficulties in bundling and grouping of assets, the Licensees should clearly propose principles of allocation of such assets into Wires / Supply and within Wires among the various voltage levels with proper justification. The Licensees are expected to make their submissions in this regard in their upcoming MTR Petitions. The Commission has already stated in the EM that the Licensees should carry out a mock exercise of asset and cost segregation as per the Guidelines and present the same in their MTR Petitions. The Licensees should use the FAR of the latest completed year i.e. FY 2021-22 for the purpose and identify the various issues and difficulties and propose work-arounds / principles of allocation in their filings. On the basis of the suggestions of all Licensees, the Commission shall issue necessary instructions in this regard, which could be generalised for all distribution licensees as well as those that are specific to each, at the time of finalising of MYT Regulations for 5th Control Period.

However, the Commission expects each Distribution Licensee to follow the Guidelines so as to minimise the errors introduced by such adhoc / proxy allocations.

Based on the above clarification, the Commission does not see a need to modify the draft Guidelines in this regard and as stated above, shall handle the issues of each Distribution Licensee separately based on their submissions in the upcoming MTR Petitions.

Regarding the suggestions of BEST, the 110/33kV or 110/11kV substations that BEST is operating due to legacy reasons shall be allocated on the basis of the secondary side voltage. The Commission in its Order dated 16 February, 2021 in Case No 137 of 2016 has already issued directions to STU to examine and identify the existence of any isolated EHV infrastructure still being owned and managed by a Distribution Licensee and approach the Commission along with suggestions and appropriate recommendations for maintenance and operation of these EHV assets by a new/separate Transmission utility. Further, the distribution pillars are a necessary part of LT cables, along with associated fixtures, as may be there. Therefore, although these assets as suggested by BEST shall anyway part of the LT voltage level, necessary additions are made in the Clause 2.3 of the Guidelines to clarify the same, as below:

Voltage Identifiable	***Line – 33kV*** ***Line – 11kV*** ***Line – LT*** ***(depending upon voltage rating)***	*Overhead Line and associated towers, tower plinth, insulators, gantry and other installed equipment*
		Underground cable and cable ducts, if any
		Relays, if any, installed ***and in case of LT lines, including Distribution Pillars / Boxes, tiles, joints, etc. as installed***

However, switchgears are associated with both DSS and CSS and Licensees have to therefore bundle them accordingly. Also, Switchgear is an integral part of substation as defined in the Electricity Act 2003 ACT as referred below:

> *"2(69) "sub-station" means a station for transforming or converting electricity for the transmission or distribution thereof and includes transformers converters,* ***switch-***

***gears**, capacitors, synchronous condensers, structures, cable and other appurtenant equipment and any buildings used for that purpose and the site thereof;”*

Accordingly, in line with definition as specified in Electricity Act 2003, Switchgear is considered as part of substation which can be DSS or CSS and hence mentioned in para 2.3. Hence no change is proposed in the same.

Further, the bundle inclusions in clause 2.3 are largely indicative as the Guideline are only supposed to articulate the overarching principles of bundling, which is same-purpose, same location. Within the principles, the Licensees shall allocate the assets and make necessary qualifications in this regard in their ARR submissions.

2.2 Methodology for allocation of past gap / surplus of Wires business

2.2.1 Proposed in the Guidelines

No explicit provision

2.2.2 Comments Received

AEML has submitted that while the methodology for segregation of different elements of Wires ARR has been specified, the draft Guidelines are silent on allocation of past revenue gaps / surplus of Wires business. Each year’s ARR of Wires business will include the stand-alone ARR and the past approved gap / surplus recoverable. While the principles for allocation of stand-alone elements are provided, no principles are provided for allocation of past revenue gaps / surplus. It is understood that the entire Wires ARR itself will get divided among voltage levels and hence past gap being part of the ARR, the same should also get allocated using some principles. In this regard, AEML has suggested that same ratio of voltages as application for stand-alone ARR should also apply for past revenue gap / surplus to allocate the same.

2.2.3 Analysis and Commission’s Decision

The Commission agrees with the fact that each year’s Wires ARR shall also include approved revenue gap / surplus of previous years for which true-up has been done and True-ups of all years upto FY 2024-25 and revenue gaps so determined may not be segregated between voltages level till that date. Towards this, it is clarified that from FY 2025-26 onwards, the truing-up of each financial year shall itself be done through approval of actual trued-up costs on a voltage-wise basis and correspondingly the revenue gap / surplus so approved for each year from FY 2025-26 onwards can be allocated into voltages at the ratio of trued-up costs so approved. However, for years prior to FY 2025-26, the Commission is of the view that while voltage-wise trued-up costs shall not be available, the cumulative / standalone total Wires revenue gap / surplus so approved for the respective years, can be allocated among voltage levels, on the basis of the allocation of stand-alone ARR in which such revenue gap / surplus is approved for pass through.

Accordingly, the following clause 5.12 has been inserted in the Guidelines:

"5.12. Past Revenue Gap / Surplus: *Approved revenue gap / surplus of Wires business of a Distribution Licensee for years prior to FY 2025-26 shall be segregated among voltage levels in the same ratio as the ratio in which the stand-alone ARR, for the year in which pass through of such revenue gap / surplus is approved, is allocated. For years FY 2025-26 onwards, the Commission shall approve voltage-wise allocated trued-up ARR for Wires business and the total revenue gap / surplus of Wires business so approved shall be segregated among voltages in the ratio of such voltage-wise trued-up ARRs."*

2.3 Allocation of Common to Business assets into Wires and Supply

2.3.1 *Proposed in the draft Guidelines*

"4.1 The Common to Business Assets as identified from the total Fixed Asset Base of the Distribution Licensees will have to be first allocated between Wires and Supply functions. For this purpose, the ratio of Wires only and Supply only assets to total (Wires + Supply only) assets, as obtained using these guidelines, shall be used."

2.3.2 Comments received

AEML has suggested that the numerical example shown in the EM does not exactly follow the above proposed guideline as provided in the example as the common assets are allocated between Wires and Supply using ratio determined without including Common to Voltage assets which is clearly identifiable as a Wire asset but cannot be bifurcated into voltage wise.

2.3.3 Analysis and Commission's Decision

The Commission concurs with the above observation and clarifies that the ratio of Wires and Supply to be used for allocation of Common to Business shall use all assets of Wires business i.e. including Voltage Identifiable, Boundary Assets and Common to Voltage assets. However, the language used in the Guidelines is sufficient and amply clear and does not require any change in this regard.

Based on the above submission, the illustration as provided in the Explanatory Memorandum in Para 4.6 in Table 19 will be revised as follows:

Sr.	Particulars	Units	Formula	Wire	Supply	Common to Wire	Common to business	Total
1	GFA	Rs. Crs	As per Data	80	20	8	2	**110**
2a	GFA Ratio	%	As per Data	73%	18%	7%	2%	**100%**
2b	GFA - Wire : Supply Ratio	%	As per Data	81.48%	18.52%			**100%**

	Particulars	Units	Formula	EHT	HT	LT	Wire	Supply	Total
3	Voltage	Rs. Crs	As per Data	10	20	20	50	0	50
4	Boundary Assets	Rs. Crs	As per Data		10	20	30		30
5	Supply Business	Rs. Crs	As per Data	0	0	0	0	20	20
6	**Total directly identifiable Wire assets**	**Rs. Crs**	6 = 3+4+5	**10**	**30**	**40**	**80**	**20**	**100**
7		**%**	Proportion to Total (6)	**10.00%**	**30.00%**	**40.00%**	**80.00%**	**20.00%**	**100.00%**
8	Common to Network - Wire	Rs. Crs	8 = 1 x7	0.8	2.4	3.2	8		8
9	Common to Business	Rs. Crs	9 = 1 x 12 - W 9 = 1 x 2b - W : S	0.02	0.31	1.30	1.63	0.37	2.00
10	Total GFA allocation	Rs. Crs	10 = 8 + 9	10.82	32.71	44.50	89.63	20.37	110.00
11	**Arrived GFA Ratio**	**%**	Proportion to Total (10)	**9.83%**	**29.74%**	**40.46%**	**81.48%**	**18.52%**	**100.00%**
12	Weightage Ratio of Consumers / Network	%	As per Table 14 of the EM	1%	19%	80%			

2.4 Allocation of Wires portion of Common to Business assets using Consumers numbers and network length as cost drivers

2.4.1 Proposed in the draft Guidelines

"4.2 In the next step, the Common Assets so allocated to Wires function shall be further allocated to different voltage levels of distribution. For this purpose, the following methodology shall be used:

	Customer-driven			***Network-driven***		
*GFA value of Common to Business assets, allocated to Wires function **(A)***	*50% of A*			*50% of A*		
	EHT	***HT***	***LT***	***EHT***	***HT***	***LT***
Allocation to Voltages in ratio of →	*% of EHT customers to total customers*	*% of HT customers to total customers*	*% of LT customers to total customers*	*% of EHT line length in Ckt-km to total distribution line length in Ckt-km*	*% of HT line length in Ckt-km to total distribution line length in Ckt-km*	*% of LT line length in Ckt-km to total distribution line length in Ckt-km*

**Distribution line length will include Service Lines as well*

4.3 As shown above, 50% value of total GFA value of allocated Common to Business assets shall be considered as Customer-driven and shall be allocated to the different voltage levels of distribution on the basis of the proportion of number of customers served by the Licensee at each level. Similarly, the balance 50% value of total GFA value of allocated Common to Business assets shall be considered as Network-driven and shall be allocated to the voltage levels of distribution in the proportion of line length (including service lines) in ckt-km at each voltage level.

…………………………

5.9 ***O&M cost, net of Non-Tariff Income and Income from other business,*** *shall be distributed over voltages in the same manner as the Common to Business assets i.e. 50% of total approved O&M cost of Wires business shall be considered Customer-related and the remaining 50% shall be considered Network-related. Thereafter, the Customer-related component shall be divided over EHT, HT and LT voltages in the ratio of number of customers of the Distribution Licensee at each voltage level and the Network-related component shall be divided over EHT, HT and LT voltages in the ratio of line length (including service lines) in ckt-km. at each voltage level.”*

2.4.2 Comments received

AEML has submitted that the weightages assigned to consumer numbers and network length should not be 50:50 but 70:30. AEML has submitted that MYT Regulations provide an escalation factor for normative O&M cost, which is derived using 70% CPI and 30% WPI – a higher weightage towards CPI indicates that the O&M costs are considered as driven largely by the number of consumers and less so, by material. AEML has further submitted that the total R&M costs, which are more material driven form only about 30% of the total O&M costs, whereas employee and A&G form the balance 70%, which are more consumer driven.

AEML has further submitted that the number of consumers considered for the purpose of allocating Common to Business assets and O&M cost among voltages should relate to Wires business of a distribution licensee only i.e. it should not include change-over consumers, which are only availing supply from a distribution licensee, as such consumers will only add to supply costs of such Licensee and not its Wires cost.

Lastly, on this issue, AEML has submitted that the number of consumers and line length considered for the purpose should pertain to closing value of these for the latest completed trued-up financial year.

2.4.3 Analysis and Commission's Decision

The Commission feels that the common to business assets involve administrative offices, stores, staff quarters, office use vehicles, etc. These assets cannot be identified as driven more by a given factor and less by another. What is clearly known, however, is that these common assets and facilities are driven by the primary drivers, which are number of consumers and network length. For example, network spread over a larger area, even if it is serving less consumers, could drive the common assets and facilities such as common offices more, whereas a denser network (i.e. smaller network length), even when serving a much higher volume of consumers, may not need larger number of administrative offices as the geography is much smaller. Moreover, the ratio of CPI and WPI provided in the MYT Regulations as pointed out by AEML is for reflecting inflation to allow for escalation in costs. It reflects the inherent nature of costs and not the driver of costs. For example, as AEML itself has pointed out, the proportion of Employee cost and A&G cost is about 70% of total O&M. This reflects the composition of cost as being composed of people-driven cost more, compared to material driven. This does not reflect the factors driving the incurrence of such costs by a distribution licensee. Hence, the CPI/WPI formula specified in MYT Regulations has no relation with the weightage assignable to factors driving incurrence of common to business assets or common costs such as O&M.

The basic intention of the Commission to have uniform methodology for allocation of GFA into wire and supply and therefore, the Commission has given equal weightage to both business parameters i.e. Consumer for Supply business and Network for Wire business. Therefore, the Commission is not inclined to agree with the above suggestion and accordingly no change is required in the final Guidelines, on this aspect.

On the issue of what kind of consumers to be counted for the purpose of determining ratios, the Commission is of the view that purpose of the usage of ratio (Consumers : Network) is to allocate the assets between Supply and Wires, it would be logical and prudent to consider the Retail Consumers of the Licensee irrespective of network being used to serve the consumer, as while incurring the cost related to Supply business, the same is incurred for all the consumers, irrespective of the same on wire network or not. Further, the Commission accepts the suggestion that the number of consumers and line length is to be considered as per the closing figures of the latest audited financial year for which true-up has been carried out. Towards clarifying the above, a new clause 4.4 has been inserted in the final Guidelines as below:

"4.4 The number of consumers to be considered shall include the retail consumers irrespective of whose wires are used to supply such consumers. Further, the number of consumers and line length shall be the closing numbers pertaining to the latest audited financial year."

2.5 Clause 5.5: Depreciation for Common to Network and Common to Business assets

2.5.1 Proposed in Draft Guidelines

"5.5 After determining depreciation for Voltage Identifiable and Boundary Assets, the Remaining Depreciation (RD) shall be worked out by subtracting the sum of these two from the total Depreciation available for the year for distribution business as a whole.

5.6 The voltage-wise ***Depreciation for Common to Network and Common to Business assets*** *shall be determined using the "Remaining Depreciation" as follows:*

	Common to Network assets			***Common to Business assets***		
	EHT	***HT***	***LT***	***EHT***	***HT***	***LT***
Depreciation (Rs. Cr.)	*C1/(C+D) * RD*	*C2/(C+D) * RD*	*C3/(C+D) * RD*	*(D1)/(C+D) * RD*	*(D2)/(C+D) * RD*	*(D3)/(C+D)* RD*

Where RD = Remaining Depreciation i.e. Total Deprecation available in a year <u>Less</u> Depreciation determined for Voltage Identifiable and Boundary Assets and Reference of C and D value is from para 5.1"

2.5.2 Comments received

TPC has submitted that the "Remaining Depreciation" for distribution business as a whole shall also include depreciation for supply business and hence the same cannot be used for the above computation as that would distort the ratios.

AEML has submitted that the Guidelines provide that depreciation shall be directly computed for Voltage Identifiable and Boundary Assets and hence known directly for EHT, HT and LT voltages. However, this is only possible for assets actually added, whereas for Wheeling Charges of FY 2025-26 (when the Guidelines are proposed to come into force), the FAR of last audited financial year i.e. FY 2023-24 only will be known and the asset classification of assets estimated / projected to be added for FY 2024-25 and FY 2025-26 will not be known and hence depreciation for FY 2025-26 could be directly computed only for Voltage Identifiable and Boundary Assets added upto FY 2023-24 and not thereafter.

2.5.3 Analysis and Commission's Decision

The Commission has reviewed the draft Guidelines and finds merit in the observation of TPC. The Commission feels that the asset block of Common to Network assets and Common to Business assets shall be known and basis the principles of allocation of these assets to different voltage levels as specified in the Guidelines, the total depreciation pertaining to these two blocks (i.e. after separating the depreciation of Voltage Identifiable and Boundary Assets) can be allocated to different voltage levels using the same methodology as adopted for asset allocation. That is, the yearly depreciation pertaining to Common to Business asset block, in the first step, shall be allocated between Wires and Supply using the same principle as specified for allocation of these assets into Wires and Supply, and thereafter, the remaining depreciation allocated to Wires will be re-allocated to EHT, HT and LT voltages using the asset ratios as determined through the asset allocation principles as specified in the Guidelines.

Further, with respect to AEML's observation about depreciation computation, it is clarified that Distribution Licensees shall, for the purpose of projecting ARR of a given year, compute depreciation for all assets added upto the last available audited financial year under voltage levels and assets estimated / projected to be added thereafter, as per the best available estimates at that point in time, as per the methodology specified in the Guidelines. The Licensees will be required to present a break-up of proposed asset addition into the various categories and voltages as per the Guidelines. Accordingly, the corresponding total depreciation as projected shall be allocated to voltages as per the principles given in the Guidelines.

Based on the above, existing clauses 5.5 and 5.6 of draft Guidelines have been replaced with Clauses 5.5 and 5.6 as under:

"5.5 After determining depreciation for Voltage Identifiable and Boundary Assets, the total depreciation pertaining to the asset blocks of Common to Network Assets and Common to Business Assets shall be allocated over Voltages using the ratio of these assets as obtained over various voltages"

"5.6 For projecting depreciation for any given financial year in ARR / Tariff Petitions (Year "n"), the Licensees shall work out depreciation for all assets actually added upto the last audited financial year (Year "n-2") and incremental assets estimated / projected to be added over different voltage levels and retail supply business, during current and ensuing financial years i.e. Years "n-1" and Year "n" as per the methodology specified in the Guidelines."

2.6 Clause 5.7: Interest on loans and Return on Equity

2.6.1 Proposed in Draft Guidelines

*"5.7 Both **Interest on long-term loans and Return on Equity** shall be distributed over different voltage levels in the voltage-wise ratio of total asset i.e. the ratios of T_{GFA}, T_{EHTT}, T_{HTT} and T_{LTT}, shall be used. (reference from Para 5.2)"*

2.6.2 Comments received

TPC has suggested that allocation of return on equity may not be required in the ratio after separation of GFA between wire and supply business as per row no 4 of the table under clause 5.2. In this regard, TPC submitted that row no 3 in table under 5.2 will be sufficient for allocating the wire ROE/interest on loan among EHT, HT & LT.

2.6.3 Analysis and Commission's Decision

The EM already clarifies that as capital is normally borrowed by the Distribution Licensees for all or a combination of their projects put together, without distinction between type of projects, the total Interest and Return for the Distribution business as a whole will have to be allocated between the different voltage levels of Wires business and Supply business. Accordingly, the draft Guidelines specify the ratio for allocation of Interest and Return in the manner indicated and is linked to Total GFA. Accordingly, there is no need to modify the same.

2.7 Cost elements not considered in the Guidelines or new cost elements which may come up in future

2.7.1 Proposed in Draft Guidelines

No explicit provision

2.7.2 Comments received

AEML has submitted that allocation of cost elements of Wires ARR such as financing charges, refinancing benefit, etc. is not provided in the Guidelines. Further, there should be a general provision allowing Distribution Licensees to propose allocation methodology for any new cost elements, which may arise in future.

2.7.3 Analysis and Commission's Decision

The Commission agrees that in order to cover all possibilities and cost elements which may arise in future, a general provision needs to be included in the Guidelines allowing Distribution Licensees to propose allocation methodology for the same, under the underlying principles of cost causation and usage / purpose based cost allocation. Following has been included in the final Guidelines:

"5.13 ***Any other cost:*** *For any other costs pertaining to Wires or supply business of a Distribution Licensee, not explicitly covered in these Guidelines, the Distribution Licensees shall propose allocation methodology for the same in their respective tariff petitions, consistent*

with the underlying principles as specified in these Guidelines and the Commission shall, based on prudence check, approve the methodology for allocation of such costs.

Provided that, in the interest of uniformity, same methodology shall be approved to allocate same type of costs for each Distribution Licensee, even if different Distribution Licensees propose different methodologies for the same, in their respective petitions."

2.8 Clause 6.3: Date of effectiveness

2.8.1 Proposed in the Guidelines

"6.3 Considering the various data related issues and data organization required for implementation of these guidelines, these Guidelines shall come into force from 01.04.2025 i.e. from the commencement of the fifth MYT Control Period. However, in order to test these guidelines and for better recognition of implementation and other issues, the Distribution Licensees shall, along with the existing method of computation of wheeling charges, also present their asset ratios and consequent division of various items of Distribution Wires ARR over different voltages using the principles of these Guidelines, in their upcoming MTR Petitions."

2.8.2 Comments received

TPC has submitted that the Guidelines should be made applicable from 01.04.2023 itself.

AEML has sought clarity on what "coming into force from 01.04.2025" actually means i.e. whether it means that wheeling charges shall be determined from 01.04.2025 onwards as per the Guidelines, or whether the assets and costs of distribution business shall be allocated into voltage levels basis from 01.04.2025 onwards only. In case, it is the latter, the allocated audited FAR shall only be available after the FY 2025-26 is over and can be employed for determination of wheeling charges only from FY 2028-29 i.e. from MTR of next MYT Control Period. In case, it means the former, it would mean that the FAR of the latest audited year FY 2023-24 available at the time of determination of next MYT from 01.04.2025, will have to be allocated voltage-wise as per the Guidelines and this would allow little preparatory time to the Licensees to organise their asset records.

MSEDCL has submitted that introduction of draft guidelines and directing a distribution licensee to implement it on test basis / effectuate it in present form in the middle of the 4th Control Period may not be in the right spirit of Multi Year Tariff (MYT) framework and hence principles for determination of wheeling charges should not be changed during the present Control Period.

2.8.3 Analysis and Commission's Decision

The Commission clarifies that the term "coming into force" means that the determination of wheeling charges shall be carried out in accordance with the assets and cost allocated as per the Guidelines from 01.04.2025 onwards.

The Commission feels this allows sufficient preparatory time to the Distribution Licensees to organise their asset records so as to be able to implement the guidelines. In any event, other than MSEDCL, no Distribution Licensee has raised any implementation concerns. Further, in any case, the issues related to implementation, if raised by the Distribution Licensees on specific factors / cost elements will be in their respective MTR Petitions and also at the time of tariff petitions for the next MYT Control Period, basis which the Commission shall take case to case decisions.

However, despite the above, the Commission is alive to the fact that the Wheeling Charges have already been determined once for each year of the present MYT Control Period and changing the principles of cost allocation mid-way during a MYT Control Period, leads to regulatory uncertainty and confusion in the minds of consumers. Also, as the changes proposed in these guidelines may be significant and shall be attempted for the first time by any Regulatory Commission in the Country, it would be better if only a mock exercise / test run is made in the present Control Period to understand the impact of the Guidelines and the issues faced by the Distribution Licensees in actually implementing the same. Towards this the draft Guidelines already provide for a mock exercise to be carried out by the Distribution Licensees and presented in their upcoming MTR Petitions. Therefore, even MSEDCL needs to carry out to this mock exercise and has to ensure that by the time of next MYT Control period, considering the ample time for collating and compiling the data, the exercise of segregation of the total Gross Fixed Assets needs to be finalised.

2.9 Other comments

2.9.1 Comments received

Certain Industrial consumers have made some general comments / suggestions with respect to determination of voltage-wise cost as summarised hereunder:

1) Further distribution of HT between voltages of 33kV and 11kV should be there;
2) The contribution paid by EHT consumers to develop infrastructure reduces the cost of distribution and this aspect should be considered by the Commission while allocating the assets and cost to such consumers;
3) O&M cost pertaining to EHT consumers is very low as most billing is done online and

through remote reading and R&M cost of EHT lines is also very low

MSEDCL has submitted that the Guidelines do not specify principles for determination of wheeling charges and has further submitted that same principles as applicable for Mumbai Licensees should not apply to MSEDCL.

2.9.2 Analysis and Commission's Decision

The present MYT Regulations deals with only three voltage classes – EHT, HT and LT. Hence the aforesaid suggestions are outside the scope of present proceedings.

With respect to contribution paid by EHT consumers, it is clarified that only such EHT lines and Substations which are considered integral part of distribution system of Distribution Licensee shall be considered for allocation of assets under these Guidelines. The EHT lines fully paid for the EHT consumers are a part of Transmission system as Transmission Licensees are maintaining the same. Going forward also, as per the Supply Code Regulations, the EHT lines shall be constructed by the Transmission Licensee with the EHT consumer only making normative contribution as per Schedule of Charges and therefore such lines will not be part of Distribution system and correspondingly out of the scope of these Guidelines.

With respect to O&M cost, the Commission clarifies that the present Guidelines deal with Wires O&M cost which is further allocated to voltage levels in proportion to the number of consumers and line length, a very small portion is expected to be allocated to EHT consumers.

With respect to the comment of MSEDCL, the Commission clarifies that the Guidelines deal with allocation of assets and cost elements of Wires ARR into corresponding voltages. Once the allocation of voltage-wise cost is done, further determination of wheeling charges will be done in the same manner as at present. Further, with regard to the applicability of same principles as applicable for Mumbai Licensees, the Commission makes clear that these Guidelines are proposed solely to make the process of asset and cost allocation uniform across all distribution licensees in the State of Maharashtra. Therefore, any specific rules cannot be framed for Mumbai Licensees alone. However, MSEDCL and any other Distribution Licensee can express their issues and difficulties at the time of upcoming MTR Petitions and the Commission shall deal with the same appropriately at that stage.

END OF DOCUMENT

ANNEXURE 1

Sl. No.	Name of Stakeholders
1.	Brihanmumbai Electric Supply and Transport (BEST)
2.	Maharashtra State Electricity Distribution Company Limited (MSEDCL)
3.	The Tata Power Company Ltd.- Distribution Business (TPC-D)
4.	Adani Electricity Mumbai Limited- Distribution Business (AEML-D)
5.	M/s. Arya Steels Rolling (India) P. Ltd.
6.	M/s. Ambika Waste Management P. Ltd
7.	M/s. Balaji Electro Smelters Pvt. Ltd.,
8.	M/s. Bhagwati Steel Cast P. Ltd.
9.	M/s. Bhagwati Ferro Metal P. Ltd.
10.	M/s. Bhulleshwar Steel & Alloys P. Ltd.
11.	M/s. Ekvira Alloys P. Ltd.
12.	Federation of Industries Association, Vidarbha
13.	M/s. G. D. Metsteel P. Ltd
14.	M/s. Indrayani Ferrocast P. Ltd.
15.	M/s. Jalna Siddhivinayak Alloys P. Ltd.
16.	M/s. MITC Rolling Mils P. Ltd.
17.	M/s. Nilanjan Iron P. Ltd.
18.	M/s. Pushpak Steel Industries P. Ltd.
19.	M/s. Rajuri Steels and TMT Bars P. Ltd.
20.	M/s. Sant Gyaneshwar Steels P. Ltd
21.	M/s. Sohn Steel P. Ltd.