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JHARKHAND STATE ELECTRICITY REGULATORY COMMISSION, RANCHI

NOTIFICATION
28th September 2016

No.55---In exercise of the powers conferred under section 181 of the Electricity Act, 2003 (36 of 2003) and all other powers enabling it in this behalf, the Jharkhand State Electricity Regulatory Commission hereby makes the following regulations.

CHAPTER I:
PRELIMINARY

A1: SHORT TITLE, COMMENCEMENT AND EXTENT

1.1 This Regulation shall be called the 'Jharkhand State Electricity Regulatory Commission (Power Regulatory Accounting) Regulations, 2016'.

1.2 These Regulations shall extend to the whole state of Jharkhand and to all matters within the jurisdiction of the Jharkhand State Electricity Regulatory Commission.

1.3 These regulations shall be interpreted and implemented in accordance with, and not at variance from, the provisions of the Electricity Act, 2003 and its amendments thereof read with Indian Electricity Rules, 1956 and any regulations in this regard made by the Central Commission and/or Authority;

1.4 These Regulations shall come into force from the date of its publication in the Official Gazette of the Government of Jharkhand;

Provided that different dates may be appointed for different provisions of these Regulations and any reference in any such provision to the commencement of these Regulations shall be construed as reference to the coming into force of that provision.

A2: APPLICABILITY OF THE REGULATIONS

2.1 These Regulations shall be applicable to all the regulated entities operating in Jharkhand and include Licensees, deemed licensees, Generating Companies, their successors and where any Licensee also undertakes business of generation of electricity and submits application for determination of tariff under section 64 of the Act or application for annual performance review under applicable Tariff Regulations notified by the Commission.

A3: DEFINITIONS AND INTERPRETATION

3.1 In these Regulations, unless the context otherwise requires-

1) **"Act"** means the Electricity Act (36 of 2003), including amendments thereto;

2) **"Accounting Statement/Annual Accounts"** means for each financial year:

    (i) The Balance sheet, prepared in accordance with the form contained in Part I of Schedule III to The Companies Act, 2013 and its predecessors.

    (ii) Cash flow statement, prepared in accordance with the Accounting Standard on Cash Flow Statement (AS-3) as notified by the Central Government within the provisions of section 133 of The Companies Act, 2013 and its predecessors.

(iii) Cost Accounting Records prescribed by the Central Government under section 148 of The Companies Act, 2013 and its predecessors.

(iv) Notes on accounts thereto, and such other supporting statements and information forming part of financial statements or as the Commission may direct from time to time.

(v) Profit and loss account, complying with the requirements contained in Part II of Schedule III to The Companies Act, 2013 and its predecessors.

(vi) Report of the statutory auditors and Comptroller and Auditor General, including any annexure and appendix thereto.

(vii) Any or all the formats as notified by the Commission under these regulations for Tariff Regulation including Multi Year Tariff Regulations pertinent to the relevant year.

Provided that in case of any local authority engaged in the business of distribution of electricity, the Accounting Statement shall mean the items, as mentioned above, prepared and maintained in accordance with the relevant Acts and Statutes as applicable to such local authority;

3) **"Appropriate Government"** means**,-**

(i) The Central Government :-

a. In respect of provisions relating to The Companies Act, 2013 (18 of 2013) as amended from time to time and includes its successors.

b. In terms of the meaning provided in The Electricity Act, 2003 (36 of 2003) as amended from time to time and includes its successors.

(ii) In any other case, the Government of Jharkhand having jurisdiction under the Act.

4) **"Audit/Auditor"** means every Entity, to which these Regulations apply, shall arrange to conduct Audit and appoint an auditor who is qualified for appointment as an auditor under sections 139 and 148 of The Companies Act, 2013 and its predecessors or successors. The Auditor under these regulations shall include any Auditor appointed by Comptroller and Auditor General of India.

5) **"Authority" means** "Central Electricity Authority", referred to in subsection (1) of section 70 of the Act.

6) **"Commission"** means Jharkhand State Electricity Regulatory Commission, established under sub-section (1) of section 82 of the Act.

7) **“Central Commission”** means Central Electricity Regulatory Commission established referred to sub-section (1) of Section 76 of the Act.

8) **“Comptroller and Auditor General”** means “Comptroller and Auditor General of India” under article 148 of the Constitution of India.

9) **“Entity”** means and includes a Utility, Undertaking, Enterprise, Company including a Government Company in terms of section 2(45) of The Companies Act, 2013, local authority or an organisation, etc. to which these regulations are applicable.

10) **“Financial Year”** means the period coinciding with the financial year for the purpose of determination of tariff, i.e., the period commencing on first day of April of a calendar year and ending on last day of the March of the subsequent calendar year.

11) **“MYT Regulations”** means the Multi Year Tariff Regulations including Tariff Regulations as notified by the Commission pertinent to the relevant year which shall form part of Annexure/Appendixes for these Regulations.

12) **“Licence”** means a licence granted under Section 14 of the Act to undertake Transmission, Distribution and/or Trading of Electricity in the concerned area of Jharkhand.

13) **“Licensee” or “License Holder”** means a person licensed under section 14 of the Act and includes “deemed licensee” under section 12 of the Act.

14) **“Licensed Business”** means the function and activities, which the Licensee is required to undertake in terms of the Licence granted or being a deemed Licensee under the Act.

15) **“Regulations”** means these regulations**;**

16) **“Regulatory Accounts”** means the regulatory accounts duly audited by the auditor within the meaning of sub-clause 4 of clause 3 of these regulations, of the Licensee/Entity that contain all the financial and non-financial information including the filled up formats appended to these Regulations and cover the activities which include without limitation the Statutory Accounts prepared under Companies Act, 1956 or any other law applicable to the Entity.

17) **“Regulated Business”** means the business regulated by the Commission within the provisions of Act.

18) **“Officer”** means an Officer of the Commission.

19) **“Other Business”** has the meaning in terms of Section 41 and 51of the Act.

3.2 Words and expressions used and not defined in these Regulations but defined in the Electricity Act, 2003 (36 of 2003) or in The Companies Act, 2013 (18 of 2013) or in or any other law relevant to these regulations as amended from time to time or respective successors of these Acts, shall have the meanings respectively assigned to them in these Acts. In case of any inconsistency in meaning of words and expressions in any of acts, the meaning and expression within the Electricity Act, 2003 shall prevail over others.

CHAPTER II:

ACCOUNTING MANUAL AND ACCOUNTING TREATMENT

A4: PREPARATION OF ACCOUNTING MANUAL

4.1 Every Entity shall make a manual containing the following :-

(i) Definition of terms used in the manual.

(ii) Introduction of the Entity.

(iii) An overview of the organizational structure of Entity.

(iv) A clear categorization of the regulated and unregulated activities of the Entity 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 Entity 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, various deposits including 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, Gas, Renewable, Nuclear or any other.
b. Transmission
c. State Load Despatch Centre (SLDC)
d. Distribution – Wheeling & Retail Supply business and
e. Trading

Further, in case any of the above Regulated business is carried out in more than one State and/or Union Territory (U.T.), State/ U.T. wise segmentation of the Regulated businesses shall be provided. Further, in case Transmission and/or Distribution of electricity is carried out under separate Transmission, Distribution and/or Trading Licence within the same State/ U.T, Licence wise segmentation of Transmission, Distribution, Wheeling and/or Trading Business shall be provided.

(x) Account heads for every type of regulated entity to be given in the manual.

(xi) Accounting System followed for each segment of the regulated business, report in serial number (ix) above, and recording of the accounting separation information and reports, including list of cost and profit centres, linkages of financial heads to cost and profit centres;

(xii) Description of studies, surveys and model employed in cost apportionment and allocation process;

(xiii) Procedure for maintenance and updating manual.

4.2 The copy of the manual shall be filed before the Commission within the prescribed time frame from the date of publication of Regulations in this regard by the Commission. All subsequent changes in the manual, together with the reasons thereof shall be submitted to the Commission.

A5: PERIODICITY OF SUBMISSION OF REGULATORY ACCOUNTS-

5.1 The Licensee or the Generation Company shall submit the Regulatory Audited Accounts (including the accounting manual) every year within seven months of the end of Financial Accounting year to the Commission in accordance with the formats as defined under **Accounting Statement/Annual Accounts** and **MYT Regulations** as provided in **Section A3:** of these regulations.

5.2 The periodicity of submission of Regulatory Accounts for certain specific formats shall be as per the frequency mentioned on the format.

5.3 The Reports referred to shall be submitted in hard copy and in soft copy in spreadsheet/relevant format along with its formulae and linkage.

5.4 The accounting year shall be same as followed by the entity for preparation of the annual financial accounts under section 2(45) of The Companies Act, 2013 and its amendments thereof.

Provided that, if accounting year exceeds fifteen calendar months, the entity shall submit the reports in two parts – one part comprising report of twelve months and the second part comprising of balance period.

A6: AUDIT

6.1 Every entity, to which these Regulations apply, shall arrange to conduct audit and appoint an auditor who is qualified for appointment as an auditor under sections 139 and 148 of The Companies Act, 2013 to audit the reports prepared by the Entity under these regulations and obtain an Audit Report from the Auditor, including the Auditor appointed by Comptroller and Auditor General of India.

6.2 The Auditor shall audit the Reports defined under **Accounting Statement/Annual Accounts** of **Section A3:** of these Regulations and others, if any prepared by the Entity, under these regulations.

6.3 The Auditor in his report shall express an opinion as to whether the Regulatory Accounts have been prepared in accordance with these Regulations and the applicable Tariff Regulations and he has received all information and explanation necessary for the purpose of audit as per format as at **Appendix - I** to these regulations.

6.4 Auditor shall in particular report the following:

a) Allocation of manpower cost to capitalised assets in Balance sheet and its exclusion from Operations & Maintenance expenses in Profit & Loss Account.

b) Schedule of asset wise capitalisation.

c) Schedule of asset wise depreciation.

d) Form 2.1 a (modified to include all tariff categories)

e) All items where Commission seeks breakups for Tariff order/auditors' certificates on periodic basis.

f) Breakup of assets/expenses for wheeling/supply.

g) Breakup of capital cost/expense for various voltages.

h) Break up of assets/expenses for various categories of consumers.

i) Break up of Power Purchase Cost, Power/fuel Purchase Adjustment Cost, etc.

j) Break up of any surcharge as determined by the Commission.

k) Statement on source of financing and amortization of Regulatory Asset created through revenue Gap, Loan utilisation certificate for all the loans availed by the licensee during the relevant year duly reconciled with statutory books of accounts. Purpose of loan may broadly be classified into four major categories: -

l) Loan availed for CAPEX, which has been capitalized during the same year.

m) Loan availed for CAPEX and included in WIP.

n) Working Capital Loan

o) Any other loan except the above three categories – Specify.

6.5 The Commission may appoint special Auditors from a panel of Auditors maintained by Comptroller & Auditor General or any other source in respect of any aspect of operations of Regulated entities.

A7: MAINTENANCE OF INFORMATION

7.1 Every Licensee or Generation Company shall maintain segregated financial, operational and accounting 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 specified by the Commission 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, Operation and Maintenance Expenses, etc. the information as specified in the formats shall be maintained separately.

7.2 Notwithstanding the above, the Commission may direct that more detailed information may be required to be maintained by every Licensee or Generating Company for their Licensed/ Regulated businesses.

A8: BASIS OF PREPARATION

8.1 Every Licensee or Generation Company shall prepare the Regulatory Accounts under the Historical Cost Convention in accordance with the provisions of the Act and the Regulations notified by the Commission from time to time, Generally Accepted Accounting Principles in India, applicable Accounting Standards as notified by the Central Government within the provisions of section 133 and other relevant provisions of the Companies Act, 2013 and its amendments thereof as well as Electricity (Supply) Annual Accounts Rules, 1985, wherever applicable. Where there is an inconsistency between the above mentioned principles, etc. and/the Act or the Regulation notified by the Commission, treatment of items in the Regulatory Accounts shall be given as per these Regulations notified by the Commission.

8.2 The Licensee or Generation Company shall follow the Accounting Policies for Regulatory Accounts while preparing the Regulatory Accounts as per the formats appended to the Regulations. In case the Profit & Loss Account, the Balance Sheet and Cash Flow Statement do not comply with any of the Accounting Standards and these regulations, 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.

A9: ACCOUNTING POLICIES FOR REGULATORY ACCOUNTS

9.1 **Fixed Assets :-**

i. Value of Fixed Assets shall be stated at cost or as per Government Transfer Scheme pursuance to unbundling of erstwhile JSEB or its predecessors and successors subject to adoption by the Commission for the purpose of Tariff determination.

ii. In case of transfer of one entity to another, Fixed Assets shall be carried at Historic Cost/cost allowed by the Commission.

iii. 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 shall be the Commercial Operation Date (COD) of the last Unit of the Generating Station for a Generation Company or the date of commissioning of the asset/ synchronisation of the asset with the rest of the network for an Entity.

iv. The Entity 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;

v. 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 Entity shall separately indicate the addition of fixed assets in respect of renovation and modernization of such fixed assets.

vi. All Grants received from Central Government or any State Government including Government of Jharkhand 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 conditions incidental thereto, 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.

Further, if the Commission directs, the Entity 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.

vii. 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. The Entity shall capitalise assets to be charged, at any voltage including 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.

viii. 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.

ix. Amount of spares capitalized & its percentage in the cost of fixed assets shall be shown separately in the notes to the Regulatory Accounts.

x. Un-discharged liability shall be shown in the Fixed Asset schedule.

xi. Variance analysis between actual capitalisation as claimed by entity and the capitalization approved by the Commission shall be shown in separate schedule/notes to schedule along with reasoning justifying the variance.

xii. 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.

xiii. Amount of capitalisation carried out in pursuance to arbitration, court order, and change in law shall be shown separately in notes to the fixed assets schedule.

xiv. Details such as gross block, depreciation for the year, accumulated depreciation and net block shall be provided for each of the above mentioned items.

xv. 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 Regulations.

xvi. 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 old replaced asset as scrap.

9.2 **Capital work in Progress:-** The Capital Work in progress shall be stated at cost inclusive of all direct and proportionate overhead costs incurred.

9.3 **Depreciation :-**

i. Depreciation on fixed assets in the Regulatory Accounts shall be charged as per the Tariff Regulations notified by the Commission.

ii. 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 for the relevant year.

iii. In case of the fixed assets added during the year, pro-rata depreciation shall be allowed for the first year.

iv. 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.

v. 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.

9.4 **Advance against Depreciation :-** Advance against Depreciation, shall not be allowed. However, if any amount is allowed, it shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations issued by Commission for the relevant year.

9.5 **Expenditure on Project Identification, Survey and Feasibility Studies :-**

i. Expenditure incurred on identification, survey and feasibility studies of a project, having prior approval of the Commission, before the project is considered for sanction or rejection shall be accumulated in an account provided for this purpose. Prior approval of Commission shall be taken for any specific project identification.

ii. 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.

iii. 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.

iv. 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.

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

i. Insurance on assets under construction.

ii. Legal charges and stamp fees in connection with agreement with capital suppliers/contractors.

iii. Fees payable to foreign technician for capital project.

iv. Expenses incurred for foreign technician for capital project.

v. Technician documentation and design charges.

vi. Other consultancy charges directly related with project

vii. Power consumed for construction.

viii. Cost of hiring vehicles and equipments for the project.

ix. Other costs directly related to the project, as approved by the Commission.

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.

9.7 **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.

9.8 **No capitalization of losses :-**

i. 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.

ii. Such losses shall be charged to the Profit and Loss Account for the year in which such losses are incurred.

9.9 **Land and Land Rights :-** 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 follows:

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 of land.

vii. Cost of demolishing as unwanted structure if the land is acquired with structure.

viii. Specify any other items.

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

9.10 **Buildings :-**

i. 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 follows:

   a. Purchase price

   b. Expenses such as legal charges, stamps duty, etc., incurred for securing an effective title,

   c. Repairs, alteration and improvements to put building in usable condition

   d. Architectural fees for the building, remodelling, alteration, improvement before the building is first put to use,

   e. Cost of obtaining permits, sanctioned plans occupation certificates from municipal or other bodies.

   f. Insurance on uncompleted structure.

g. Specify any other item.

ii. Cost of constructed building shall include the following items:

a. Cost of construction comprising of materials, labour charges and depreciation on construction machinery

b. Surveying

c. Cost of obtaining permits, sanctioned plans occupation certificates from municipal or other bodies

d. Architectural fees

e. Insurance on uncompleted structure

f. Cost of excavation

g. Specify any other item.

9.11 **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.

9.12 **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.

9.13 **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.'

i. Expenses related to minor replacements shall be charged to revenue as Repair and Maintenance Expenses.

ii. Expenses related to major replacement shall be capitalized.

iii. The original cost of the replaced asset shall be withdrawn from the cost of total assets in Regulatory Accounts.

iv. 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.

9.14 **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.

9.15 **Full write off of small and low value items :-**

i. Full cost of all small and low value assets each costing Rs. 5,000 (Rupees five thousand only) or less shall be fully charged to revenue in the year in which the assets are put to use.

ii. 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.

iii. The policy for full write-off stated shall not apply to items included under the classification ‘furniture & fixtures’ and ‘office equipment’ exceeding Rs. 5000/- (Rupees Five thousand only).

iv. The accounting policy for write-off of small and low value assets shall not apply to cost of granting each service connection.

9.16 **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 shall in such cases be applied to the aggregate of such expenditures and be accounted for.

9.17 **Commissioning of Assets :-**

i. All capital expenditure shall be accounted for through capital work-in-progress accounts.

ii. On commissioning of the assets, the expenditure shall be transferred to appropriate fixed assets account, subject to fulfilment of the conditions of the Commission, necessary approvals required (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) and other conditions in respect of expenditure and financing etc.

9.18 **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 the synchronisation with the rest of network for a Transmission Licensee or a Distribution Licensee.

i. **Assets which are ‘Commissionable’ but not actually commissioned:**

a. An asset which is installed/ constructed and is in ‘commissionable’ state, but 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.

b. All costs incurred on capital assets (including costs incurred on maintaining the assets which are ready but waiting the actual commissioning) shall be charged to the cost of the assets.

ii. **No waiting for finishing touches:**

a. Cost of an asset 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.

b. Cost 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 Jharkhand State Regulatory Commission.

iii. **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 of 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.

iv. **Escalation Claim:** Cost escalation claim made by suppliers and contractors shall be provided to the extent the claim is acknowledged by the Utility and cost of assets inclusive of such provision shall be capitalized, subject to approval by the Commission, when the asset is first put to use.

v. **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.

vi. **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.

Provided further the licensee shall be free to produce a certificate from an approved "Valuer" within the meaning of The Companies Act, 2013 or their respective successors, for valuation of assets in this regard.

vii. **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. Liability towards the asset shall also be adjusted.

viii. **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.

ix. **Capital spares at generating station:**

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 spares.

d. Deprecation on such spares shall be charged as per the Tariff Regulations of the Commission.

x. **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 units 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.

Provided when the removed unit is considered irreparable, it shall be considered to be a retired asset (if the estimated life is over) or scraped assets (if estimated life is not over) and accordingly the subsequent accounting for retirement, scrapping and sale shall be done.

Simultaneously with retirement/scrapping of the original unit, the cost and accumulated depreciation on the spare unit shall be transferred to fixed assets account.

9.19 **Treatment of income from investments:-** Income from investment shall be credited to the revenue account for the year in which the income has accrued.

Provided 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.

A10: TIMING OF ACCOUNTING FOR REVENUE

10.1 Revenue from sale of power shall be accounted for on cash basis.

10.2 In case there is any departure from the method mentioned at 10.1, the entities shall report accordingly along with its financial effect.

10.3 Reconciliation of actual collection, sales, and debtors shall be provided in the notes to the accounts.

10.4 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.

A11: DISPUTED CLAIMS UNDER WARRANTY FOR REPAIRS

11.1 Claims made for repair of capital equipment's 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.

11.2 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.

A12: CASH DISCOUNT

12.1 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/ purchase value.

A13: INTANGIBLE ASSETS

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

A14: INVESTMENTS

14.1 Investment and income there from made out of retained return on investment shall not be considered in the regulatory accounts, unless they are re-invested in the regulated business.

14.2 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.

A15: EQUITY

15.1 Where the actual equity including the retained profit invested in the Regulated Business is less then normative equity as per Tariff Regulations, actual equity shall be considered in the Regulatory Accounts.

15.2 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.

A16: RETURN ON EQUITY OR CAPITAL EMPLOYED

16.1 Return on Equity/Capital Employed (RoE/ RoCE) shall be shown in the Regulatory Accounts as per the appropriate provisions of Tariff Regulations.

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

A17: TAXES ON INCOME

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

i. Income Tax paid or payable by the Licensee or the Generation Company, at actual, on the income stream from the Regulated Business shall be considered in Regulatory Accounts; and

ii. Income Tax on the amount of efficiency gains or incentives shall be considered in Regulatory Accounts.

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

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

A18: OPERATION AND MAINTENANCE EXPENSES

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

A19: LEASEHOLD LAND

19.1 Leasehold land is depreciated over the period of lease as per the terms and conditions of the Lease Agreement.

19.2 Lease rental shall be charged to Profit & Loss Account under Administrative & General Expenses as payable, for the actual life of the Project.

A20: POWER PURCHASE COST

20.1 Power Purchase Cost shall be included separately based on actual amount paid to procure the Power, in addition to billing in a year, on the basis of Balance confirmation certificates issued by the entities supplying power to the Distribution licensees. Any payment in this regard in addition to payment for the year under reporting/prior period shall be shown additionally by the licensee.

A21: LOANS / BORROWINGS

21.1 The amount of loan approval shall depend 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 allows the loans on normative basis including the period of loan and the repayment schedule which is matched with the depreciation of the fixed asset for which the loan is availed. When 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. the actual figures shall be submitted by the regulated entity supported by due certificate by Auditor.

21.2 Capitalization of Interest Expenses on loans shall be limited to the amount approved by the Commission.

21.3 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.

A22: FOREIGN EXCHANGE RATE VARIATION

22.1 Foreign Exchange Rate Variation shall be in accordance with the notified Tariff Regulations as issued by the Commission.

22.2 In the absence of any specific provision in this regard in the Tariff Regulations, till it is 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.

A23: WORKING CAPITAL LOANS AND INTEREST ON WORKING CAPITAL

23.1 Working Capital Loans shall be shown in Regulatory Accounts in accordance with the appropriate provisions of Tariff Regulations.

23.2 Interest on Working Capital shall be shown in the Regulatory Accounts as per the appropriate provisions of Tariff Regulations.

A24: INTEREST ON SECURITY DEPOSIT

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

A25: CONTRIBUTION TO CONTINGENCY RESERVE

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

A26: INCENTIVE /DISINCENTIVE FOR PERFORMANCE PARAMETERS AND EFFICIENCY GAINS/ (LOSSES)

26.1 Incentive and Disincentives for Performance Parameters such as Plant Availability Factor or Plant Load Factor (PLF) 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.

26.2 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.

A27: DEEMED GENERATION

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

A28: TRUING UP

28.1 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.

A29: SALES FOR THE YEAR

29.1 **Generation:** Million Units (MU) sold and revenue there from shall be provided in sales schedule for each generating station.

29.2 **Transmission:** The Section/Licence area wise MU wheeled and income there from shall be given separately.

29.3 **Distribution:** Category wise units sold as per the relevant tariff order by the Commission and revenue there from shall be shown separately in the sales schedule for each licensee/licence area. Units sold under banking arrangement, if any, and income considered there from shall 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. Amount received from the consumers under Fuel Purchase Adjustment Charge/Power Purchase Adjustment Cost as determined by the Commission from time to time, shall be shown separately. Any other surcharge as determined by the Commission for recovery from the consumers may also be shown separately.

A30: NON-TARIFF INCOME

30.1 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.

A31: OTHER BUSINESS INCOME

31.1 Other Income shall be considered for reduction in ARR of the Licensee in the Regulatory Accounts, as per the appropriate provisions of Tariff Regulations.

A32: PRIOR PERIOD ITEMS AND OTHER EXPENSES

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

32.1 Other expenses/ exceptional items/ extra-ordinary items of expense shall be shown in Regulatory Accounts, as approved by the Commission.

A33: REGULATORY ASSETS AND CARRYING COST

33.1 Regulatory Assets shall be in conformity with the Tariff Regulations notified by the Commission.

33.2 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 (if stipulated by the Commission in the Tariff Order 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.

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

A34: PROFIT SHARING

34.1 This shall be in accordance with the applicable sharing mechanism specified in the unbundling/ re-bundling scheme of the Government of Jharkhand / Tariff Regulations of the Commission and shall be reflected in the notes to the accounts.

A35: TREATMENT OF REVENUE SUBSIDY BY JHARKHAND GOVERNMENT AGAINST SALE OF POWER

35.1 Any Subsidy given by the Government of Jharkhand to any consumer or class of consumers under Section 65 of the Act shall be considered as revenue to the extent of the billing done to the consumer. Reconciliation of subsidy received from the Government of Jharkhand and actual subsidy disbursed by the utility shall be provided in the notes to the accounts.

A36: BANKING ARRANGEMENT

36.1 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 among the relevant parties.

A37: ITEMS TREATED ON CASH BASIS

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

A38: PROVISIONS MADE AGAINST BAD & DOUBTFUL DEBTS

38.1 Accounting for Bad and Doubtful debts 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.

A39: INVENTORY

39.1 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.

A40: RETAIL AND WHEELING BUSINESS

40.1 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.

A41: REGULATED RATE BASE

41.1 Shall be the value established for an Entity by the Commission on which Entity is allowed to earn a rate of return as approved by the Commission. The regulated rate base shall include the operating and other costs as approved by the Commission the cost of constructing new facilities, unless approved by the Commission shall be excluded from the Regulated Rate Base.

A42: SEGREGATION OF DISTRIBUTION BUSINESS ARR INTO WIRES BUSINESS AND SUPPLY BUSINESS

42.1 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 long-term, medium-term, and short-term power purchase contracts for supplying to its consumers.

42.2 In case the Commission has specified the basis of allocation of expenses between Wires Business and Retail Supply Business in the JSERC (Terms and Conditions for Determination of Distribution Tariff) Regulations, 2010 and as amended from time to time, the same shall be considered for allocation of the expenses of the Distribution Licensee.

42.3 In case the above mentioned regulations do not specify any basis for allocation of expenses between Wires Business and Retail Supply Business, the Distribution Licensees shall follow a consistent basis of allocation ratios for apportionment of different components of Distribution ARR into Wires Business and Supply Business, after approval of the same by the Commission.

42.4 The allocation ratios on which the different components of Distribution ARR shall be apportioned are mentioned herein below. These allocation ratios are subject to review and customisation, depending on the cost structure of the respective Distribution Licensee, as approved by the Commission.

i. **Power Purchase/Transmission/SLDC Expenses:** All these expenses related to the Supply Business shall be allocated to Supply Business ARR.

ii. **Employee Expenses:** Direct employees for Wires Business and Supply Business shall be identified first and Employee Expenses related to these direct employees shall 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 discussed 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. Since 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 shall be higher than the proportion allocated to Supply business and should be considered in 60:40 ratio.

iii. **Repair and Maintenance Expenses:** Cost of spares, fuel etc. and cost of services related to wires business and supply business shall be separately recorded. All direct Repair and Maintenance (R&M) Expenses related to Wires Business and Supply Business shall 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 discussed 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 90:10.

iv. **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 shall be allocated to Supply Business, while that relating to distribution sub-stations/receiving stations shall 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, shall be apportioned using the allocation principles 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 50:50.

v. **Depreciation:** Major Portion of assets of Distribution Licensee relates 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, shall be allocated to Supply Business. 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 shall 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 shall 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 90:10.

vi. **Interest on Loans:** All new loans availed by the Licensee shall 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 shall be allocated to respective businesses. Other interest charges, which are common to both Wires Business and Supply Business shall 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 90:10.

vii. **Interest on Working Capital:** All new Working Capital loans availed by the Distribution Licensee shall 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 shall be allocated to respective businesses.Other interest on Working Capital which is common to both Wires Business and supply Business can be apportioned using the ratio 10:90, as major portion of Working Capital loans belongs to supply business.

viii. **Interest on Security Deposit:** Security deposits are collected by Distribution Licensees from the consumers for supplying electricity to them, the interest on Security Deposits shall be allocated entirely to the Supply Business.

ix. **Provision for Bad Debts:** Major part of bad debts relates to supply business. However, as it is not exactly possible to separate the bad debts between Wires Business and Supply Business, these expenses, if any, can be apportioned between Wires Business and Supply Business using the ratio 10:90.

x. **Return on Equity:** RoE for both the businesses shall be allowed based on the Equity invested separately for both the functions. Common RoE, if any shall 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 using the ratio 90:10.

xi. **Income Tax:** Tax shall be apportioned on the basis of RoE/ RoCE related to Wires Business and Supply Business, provided for apportionment of Income Tax. Non-Tariff Income- Non Tariff Income resulting from meter rent, delayed payment charges, service connection charges etc. shall be allocated to Supply Business, while income resulting from sale of scrap etc. shall be allocated to Wires Business. Other common items of Non-tariff Income, if any can be apportioned using the allocation principles discussed for apportionment of revenues. However, till the time the segregation is complete, the Distribution Licensee may apportion Non-Tariff Income between Wires Business and Supply business using ratio 10:90.

xii. **Licence fee:** Licence fee payable by the eligible licensees, including deemed licensees shall be as per the provisions contained in the JSERC (Conduct of Business Regulations), 2011 and as amended from time to time notified by the Commission. Every Licensee shall disclose the actual amount payable/paid based on the audit certificate duly supported by the affidavit in this regard. Apportionment of license fee between Wires Business and Supply Business shall be in the ratio 10:90.

A43: ALLOCATION PRINCIPLES FOR ASSETS, LIABILITIES, INCOME AND EXPENSES

A. Fixed Assets

43.1 **Plant and Machinery including Generating Station, Transmission Network and Distribution Network:** Apportionment on the basis of technical parameters (contracted capacity for Generating Stations and Transmission Networks, and connected load or consumption in Million Units for Distribution Networks) will be most suitable and objective in nature. These parameters for the previous year may be used for apportionment of common assets in ensuing year.

43.2 **Land, Buildings and Civil Structures including Furniture & Fixtures, Office Equipment and Vehicles:** Apportion such common assets on the basis of proportion of number of employees belonging to distinct business segments and utilising the common assets. It will be easy to identify the number of employees engaged with the current assets. The number of employees which do not belong to distinct business segments, but are engaged with the common asset should be excluded, and only the proportion of employees belonging to distinct businesses, engaged with the common assets should be considered for computing the proportion.

43.3 **Other Fixed Assets:** Apportion such common assets based on the proportion of value of fixed assets directly attributable to different business activities of the Utility. Apportionment on the basis of revenue will be more subjective, as revenues from different businesses are dependent upon the type of business activity.

B. Current Assets

43.4 **Stores and Spares:** Apportion value of stores and spares on the basis of proportion in which that common asset is being apportioned. In case it is not identifiable with a specific common asset, then apportionment may be done in proportion of value of total common assets allocated to different business activities. Apportionment on the basis of revenue will be more subjective, as revenues from different businesses are dependent upon the type of business activity.

43.5 **Other Common Current Assets:** Apportion value of such common current assets on the basis of proportion of value of total common assets allocated to different business activities. Apportionment on the basis of revenue will be more subjective, as revenues from different businesses are dependent upon the type of business activity.

43.6 **Receivables:** Apportion of receivables is on the basis of revenue though the type of business activity and its collection cycle may have a bearing on the amount of receivables.

43.7 **Investments:** Apportion investments on the basis of revenue as apportionment on the basis of cash accruals will be more difficult and subjective as it may involve application of apportionment principles in several heads.

C. Liabilities

43.8 **Long term loans and equity:** In case the common liability is identifiable with a common asset, the same should be apportioned on the basis of which the common asset has been apportioned. In case the common liability is not identifiable with a common asset, it should be apportioned on the basis of which the total common assets have been apportioned.

43.9 **Interest on long term loans accrued but unpaid:** In case the interest is identifiable with a common long term loan, the same should be apportioned on the basis of which the common long term loan has been apportioned. In case the interest is not identifiable with a common long term loan, it should be apportioned on the basis of which the total common long term loans have been apportioned.

43.10 **Current liabilities and provisions:** Apportion such common current liabilities in the proportion of revenue generated by the business activity as these have direct relation with the level of operations of the business activity.

43.11 **Revenue Income from Common Assets:** Although realisation of revenue from a business depends on the type of business, it is preferable to apportion common revenue on the basis of direct revenues from different businesses. Apportionment of common fixed assets will be done on the basis of proportion of fixed assets directly attributable to different assets. Therefore, apportionment of common revenue on the basis of common fixed assets will not be representative.

D. Expenses

43.12 **Generation Expenses and Power Purchase Costs:** Apportion fixed charges and variable charges separately. Contracted or allocated capacity will be used for apportioning capacity charges, and power procurement in MU will be used for apportioning variable charges. Apportionment on the basis of average generation expenses or average power purchase costs does not reflect the actual capacity charges payable, which is based on the allocated capacity.

43.13 **Transmission, SLDC and Distribution Expenses:** Apportionment on the basis of allocated capacity will be most suitable, as there would be less subjectivity involved. These parameters for the previous year may be used for apportionment of common expenses in ensuing year.

43.14 **Administration and General Expenses:** It is preferable to apportion the common Administration and General expenses in proportion of number of direct employees related to different businesses. Apportioning on the basis of floor space or revenues or any other method will be more difficult and subjective than apportioning on the basis of proportion of number of direct employees.

43.15 **Repair and Maintenance Expenses:** Apportion of common Repair and Maintenance expenses should be done on the basis of apportionment of total common fixed assets as it is not always possible in most of the cases to identify the common Repair and Maintenance expenses with a specific common fixed asset.

43.16 **Employee Expenses:** Apportion of employee expenses should be done on the basis of some measurable parameter. For operating staff, the basis of apportionment should be on the basis of man-hours devoted to different business activities, which can be derived from time sheets. If time devoted by any employee is not specific to any particular business, that should not be considered and only the proportion of time devoted by employees to specific businesses should be considered for apportionment of entire common employee expenses for operational staff. For other support activities, expenses should be apportioned based on some measurable parameters, e.g. common employee expenses related to procurement department may be apportioned on the basis of value of procurement for different businesses, common employee expenses related to IT department may be apportioned on the basis of number of computers used for different departments etc. Common expenses related to senior employees, like Chairman, Managing Director etc. may be apportioned on the basis of number of direct employees belonging to different businesses.

43.17 **Depreciation:** Apportion of common depreciation expenses should be done on the basis of apportionment of total common fixed assets to different business activities, as identification of depreciation with a particular common asset is not always feasible.

43.18 **Replacement of a part of asset:** If any part of an asset is replaced at any stage of the useful life of the asset, then the method of charging depreciation for the purpose of regulatory accounts on the asset requires deliberation. Replacement of the old part with a new one may extend the life of the asset. However, depreciation should be charged only for the useful life of the asset and the useful life of the asset should not increase, although the actual life may increase by replacement of the part. The asset value will increase at the time of replacement of the part to the extent of value of new part and will decrease to the extent of value of old part. Residual depreciation corresponding to the revised asset value should be charged at depreciation rates as per applicable Tariff Regulations for the residual life of the asset.

43.19 **Interest and Finance Charges:** Apportion of common Interest and Finance Charges should be done on the basis of apportionment of total common liabilities to different business activities, as identification of interest and finance charges with a particular common liability is not always feasible.

43.20 **Return on Equity/Capital Employed Identifiable with Common Asset (for the Regulated Businesses):** Apportioning of RoE/RoCE identifiable for common assets should be done on the basis of apportionment of common fixed assets to different business activities.

43.21 **Income Tax:** Income tax should be apportioned on the basis of proportion of RoE of different regulated businesses of the Utility. However, if there are any un-regulated business of the Utility, then income tax should be apportioned on the basis of Profit Before Tax (PBT) of the different businesses.

43.22 It may be noted here that if RoE is provided on Pre-Tax basis, then there is no requirement of separate apportionment of Income Tax. Here income tax forms a part of Pre-Tax RoE, and it will get apportioned along with RoE on the basis of principles discussed in preceding section for RoE.

CHAPTER III:

MISCELLANEOUS

A44: APPLICABILITY OF REGULATORY ACCOUNTS TO ELECTRICITY DEPARTMENTS/ COMPANIES OF WHICH AUDITED ACCOUNTS ARE BEING MAINTAINED ON SINGLE ENTRY SYSTEM

44.1 There shall not be any exemption applicable to Entities for preparation and submission of Regulatory Accounts as per these Regulations, however, the applicability shall be from the date of notification by the Commission.

A45: POWER TO REMOVE DIFFICULTIES

45.1 If any difficulty arises in giving effect to any of the provisions of these regulations, the Commission may in public interest and for reasons to be recorded in writing by general or special order, do anything, not inconsistent with the provisions of the Electricity Act, 2003 and amendments thereof which it considers necessary or expedient for the purpose of removing the difficulties.

A46: INTERPRETATION

46.1 If a question arises relating to the interpretation of any provision of these Regulations, the decision of the Commission shall be final and binding on all the concerned parties.

A47: ENQUIRY AND INVESTIGATION

47.1 All enquiries and adjudications under these Regulations shall be done by the Commission through the proceedings in accordance with the provisions of the JSERC (Conduct of Business Regulations), 2011 and amendment thereto.

A48: PENALTY

48.1 Subject to the provisions of the Act, the Commission may impose penalty on any of the licensees for violation of any of the provisions of these regulations, as it deemed fit.

A49: GENERAL

49.1 Subject to the provisions of the Electricity Act, 2003 and amendments thereof and these Regulations, the Commission may from time to time, issue orders and directions in regard to the implementation of these regulations and procedure to be followed on various matters, which the Commission has been empowered by these Regulations to direct and matters incidental or ancillary thereto.

49.2 Subject to the provisions of the Electricity Act, 2003 the Commission may, at any time add, vary, alter, modify or amend any of the provisions of these regulations.

By order of the Commission,

A.K.Mehta,
Secretary.
Jharkhand State Electricity Regulatory Commission

APPENDIX – 1

FORM OF AUDIT REPORT OF THE REPORTING SYSTEM

I/We, having been appointed as the Auditor(s) under the requirements laid down in the JSERC (Power Regulatory Accounting) Regulations, 2016 (here in after referred to as the Regulations) notified by the Jharkhand State 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 Reporting System 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 the 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 Jharkhand State Electricity Regulatory Commission by the Entity.

Dated:	Signature
Place:	Name of Proprietor/Partner
Name of the Firm with Stamp (Seal):	Membership No.

Annexure: The Reporting System

Asset wise breakup of Gross Fixed Assets

Sl. No.	Asset Particulars (to be provided asset-wise)	Asset code	Opening Asset value	Cumulative Depreciation in Opening Asset value	Additions during the year									Deletions during the year			Closing Asset value	Cumulative Depreciation at the end of year	Undischarged liabilities				
					Base cost	IDC	IEDC	FERV	Pre-commissioning expenses	Survey expenses	Capital spares	Total Additions	Depreciation	Asset Value	Depreciation	Corresponding Equity to be deducted			Opening	Additions	Discharged during the year	Reversal/ adjusted during the year	Closing