

DELHI ELECTRICITY REGULATORY COMMISSION

Guidelines for Approval of Capital Investment Schemes

1. Guidelines Governing Capital Investments

1.1 License Conditions

The License issued to Power Utilities contains the following conditions as specified in clause 10 for Capital Investment and Project Implementation:-

10.4 The Licensee shall make an application to the Commission for obtaining prior approval of the Commission for schemes involving major investments as per the procedure which the Commission may specify from time to time and demonstrate to the satisfaction of the Commission that :

- a. there is a need for the major investment in the Distribution System which the Licensee proposes to undertake;*
- b. the Licensee has examined the economic, technical and environmental aspects of all viable alternatives to the proposal for investing in or acquiring new Distribution System assets to meet such need; and*
- c. the Licensee has explored all possible avenues and is sourcing funds in the most efficient and economical manner.*

10.5 The Licensee shall invite and finalise tenders for procurement of equipment, material and / or services relating to such major investment, in accordance with a transparent, competitive, fair and reasonable procedure as may be specified by the Commission from time to time.

10.6 For the purposes of Clause 10, the term "major investment" means any planned investment in or acquisition of Distribution facilities, the cost of which, when aggregated with all other investments or acquisitions (if any) forming part of the same overall transaction, equals or exceeds Rs.2,00,00,000.00 (Rupees two crore only) or such other amount as may be notified by the Commission from time to time.

1.2 Purchase from Sister Concerns

The Commission has issued directions to the Distribution Companies vide its letter dated 02.06.2006 directing that all transactions with sister concerns/group companies exceeding a sum of Rs. 1 crore may be entered into only after prior approval of the Commission.

1.3 Competitive Bidding Guidelines

In terms of 10.5 of License condition, the Commission has issued Competitive Bidding Guidelines. The Distribution Licensee shall follow the "Competitive Bidding Guidelines for the Distribution Licensees amended as on 09.10.2009" for procurement of the material and execution of work.

2. Submission of Capital Investment Business Plan for MYT Period

The Licensees shall submit Capital Investment Business Plan for MYT Period outlining the major schemes proposed for each Financial Year alongwith other relevant proposals and supporting information such as demand projections, network reliability and design criteria. The scope of investments included in each Scheme may cover works of New Grid Sub Stations proposed at different locations within the license area, Schemes for modernization / augmentation of the Transmission and Distribution Network, T&D loss reduction , Information Technology Schemes, SCADA and Communication Equipment at the region, Schemes for Major Replacement of Old Equipment etc.

3. 'In-Principle' Approval of Capital Investment Schemes

3.1 Approval Process

The Commission shall initially grant "in-principle" approval of Capital Investment of Schemes after examining the necessity and techno-commercial feasibility of Capital Investment Scheme containing the detailed information about the proposed scope of work in scheme so as to execution of work could be taken up by Power Utilities.

3.2 Documents/Information to be submitted along with DPR for 'In-principle' approval:

The DPR must contain technical reports, design criteria, bill of quantity, item-wise estimated cost and all such information, particulars and documents as necessary to support the details contained in DPR for scrutiny of scheme by the Commission. Following information/documents are to be submitted along with the DPRs:-

- a) The single line diagram for the proposed schemes duly differentiating the existing schemes vis-à-vis the newly proposed schemes.
- b) The in-feed arrangements for various schemes will have to be clearly brought out in the scheme itself and the confirmation regarding the in feed from agencies from whom the same is proposed to be taken.
- c) The availability of land/right of way for the scheme and, if the same is not available, the methodology for acquiring the same.
- d) The Bill of Quantity will have to be estimated by the utilities.
- e) In case of deposit work, the approval of the committee established for such purpose will have to be checked.
- f) In case of deposit work, cost sharing arrangements between the development agencies, vis-à-vis the licensees or any other agency need to be checked and whether the same is according to the Supply Code and Performance Standards Regulations?
- g) Recommendation of the Steering Committee, wherever applicable, as per the directions of the Commission vide minutes of meeting dated 18.12.2009.

The above-mentioned list is only illustrative and not comprehensive.

3.3 Evaluation Criteria to be adopted by the Commission staff

The initial approval of the Commission before implementation of capital works schemes is an 'in-principle' approval mainly keeping in view the following:

- a) Necessity
- b) Overall suitability
- c) Pay back period

- d) Whether the scheme fits into Central Electricity Authority's (CEA's) overall system planning study for Delhi.
- e) Whether in-feed to the new sub station proposed will be available from the system of Delhi Transco Ltd. (DTL).
- f) Whether it meets at least the near future demand growth projections.

A. Necessity for the scheme.

- (i) Whether the proposed capital investment is necessary to set up the infrastructure to meet normal load growth or to reach new consumers or for increasing administrative efficiency?
- (ii) Whether equipments proposed to be replaced are operating close to their rated capacities and equipments are required to reduce the load on the existing equipments to prolong its life, to increase the reliability of the system and to facilitate the creation of back up facility during scheduled maintenance operation?

B. Statutory/safety requirements.

- (iii) Whether the scheme is necessary to discharge the duty/obligation as per Electricity Act, 2003 or to meet any other statutory or safety requirement? (If the scheme is likely to result in violation of any provision of the Electricity Act, 2003, the same should be mentioned clearly and the safeguards for this should also be brought out.)

C. Technical justification.

- (iv) Whether the scheme conforms to the planning criteria of the Central Electricity Authority for long term and CTU/STU for short term?
- (v) Whether the scheme meets design criteria in keeping with prevailing norms and standards?
- (vi) Whether the replacement of old equipment is necessary and, if so, whether the existing equipment has outlived its normal life span? (For example, if the DT meters, installed during FY 2007-08 are proposed to be replaced, then it should be explained why the replacement is required only after 3 years.)

- (vii) Whether the useful life of the equipment is reasonable?
- (viii) The average rate of technology obsolescence for that equipment must be mentioned.
- (ix) Whether the proposed investment would improve the reliability of supply? (The reasons for procurement with justification must be given.)
- (x) Whether the investment is necessary for reduction in T&D losses?
- (xi) Whether the capacity planned is commensurate with demand growth?
- (xii) Whether the scheme is being executed in different phases over a period of time? (If so, the schemes completed and the schemes now proposed to be taken up will have to be clearly mentioned.)

D. Alternatives.

- (xiii) Whether other alternative schemes have been considered? (If so, the basis on which the proposed scheme has been selected out of several alternatives considered by the licensees will have to be mentioned.)
- (xiv) Whether the proposed investment would result in duplication of existing infrastructure? (if the cost of investment is supposed to be borne by some other agency, then it should be clearly mentioned. For example, streetlight controllers are proposed to be installed, the cost there of should be borne by the streetlight owning agency and any capital expenditure on the same should not be booked in Capital Expenditure head.)
- (xv) Whether proposed investment includes repairs of various grid stations and buildings, sub stations. (The expenses of repairs are already provided for in the O&M expenses and, therefore, justification for claiming these expenses under capital investment must be clearly brought out.)
- (xvi) Whether the proposed investment is a necessity for the conduct of business or is it a luxury, burden of which is being passed on to consumers?

E. Cost benefit analysis.

- (xvii) Whether cost benefit analysis has been considered and the least cost option has been selected? (The details of cost benefit analysis must be given. The basis for estimated cost shall be mentioned and such estimated cost shall be used as a baseline for Competitive bidding.)
- (xviii) What is the Pay-back period of the proposed investment?
- (xix) Whether recurring cost associated with the schemes are reasonable?

3.4 Letter for 'In-Principle' Approval

At the stage of 'In-principle' approval, the cost proposed by the utility is on estimated basis. Without commenting on the cost proposal by the utility, Commission shall only give 'In-principle' approval to the schemes, indicating major items with their ratings and quantities such as transformer, breaker, isolator, panel, switchgear, RMU, cable etc.

4. Final Approval at the time of Capitalization

In stage two, the final approval of capital outlay consequent to implementation of a scheme is granted at the time of capitalization, after a diligent and proper prudence check and verification of the actual cost, actual quantity of material used, proper implementation of the scheme and after verifying that all legal clearances like Electrical Inspector's permission etc, have been obtained. At the time of final approval, if the actual expenditure is found to be inflated, whether by inflating the cost by making purchases from Group Companies at high rates or otherwise, then the same shall be corrected.

The final approval of capital cost consequent to implementation of a scheme shall take into consideration the prices emerging through the competitive bidding process and the quantities for all major items as indicated in 'in-principle' approvals of various schemes. The utility, seeking final approval, shall furnish copies of the purchase orders, sales invoices, delivery challans etc. of the manufacturer etc. relating to goods for which capitalization has been proposed.

The utility shall maintain a record of all 'in-principle' approvals granted by the Commission, including the quantities of major items contained therein. The Commission shall require the utility to link the quantities contained in purchase orders/work orders placed by them with the quantities contained in various 'in-principle' approvals granted by the Commission from time-to-time. The provision for other miscellaneous items required for execution of schemes may be considered on percentage basis. The civil works may be provided as per the site conditions, subject to verification by the Commission or its authorized representative.

At the stage of final approval of the capital investment, the prudence check will contain the following:-

- (i) Whether the competitive bidding process has been strictly followed as per the Competitive bidding guidelines issued by the Commission?
- (ii) Whether the scope and objectives given at the time of in principle approval have been achieved and whether actual benefits and results achieved are in line with the benefits and results projected in the scheme at the time of in principle approval?
- (iii) Whether all legal clearances including Electrical Inspector's certificate have been obtained.

5. These guidelines shall be applicable for all distribution, transmission and generating companies.

Checklist for use in the Commission for 'In-principle' approval

S. No.	Name	
1.	Name of Scheme	
2.	Estimated Cost	
3.	Objective / Justification	
4.	Scope of work in brief (major items)	
5.	Completion Period	
6.	Funding Arrangement	
7.	ROI/ Cost benefit Analysis	
8.	Pay Back Period	

Observations of Engineering Division

Name of Scheme:	
<p>1. (a) Prudence of Investment</p> <ul style="list-style-type: none"> i. Safety/Statutory requirement ii. Need / necessity iii. Cost benefit analysis <p>(b) Technical Justification</p> <ul style="list-style-type: none"> i. Design Criteria ii. Justification for Replacement 	
<p>2. Reasonability of Cost Estimate</p> <ul style="list-style-type: none"> i. Alternatives considered & Justification for option considered. ii. Reasonableness of Project Cost iii. Possibility of Phasing the Capex 	
<p>3. Comments on Cost benefit analysis</p> <ul style="list-style-type: none"> i. Quantitative Parameters (Additional Sales, Loss Reduction etc.) ii. Pay Back Period 	
<p>4. Discrepancy/Shortcoming observed</p>	
<p>5. Remarks / Specific comments, if any</p>	