

GUIDELINES FOR INVESTMENT APPROVAL

(FEBRUARY 2006)

- 1.1 As per the provisions of paragraph 10 of the Transmission and Bulk Supply Licence (Licence No. 1/2000) and paragraph 9 of the Distribution & Retail Supply License (Licence No. 12/2000), the Licensee shall promptly notify the Commission of any Schemes pertaining to the Transmission or Distribution System which the Licensee from time to time proposes to implement.

As per the Licence conditions, the Licensees are required to obtain prior approval of the Commission for any investment above Rs.500 lakhs (major investment). The Licensee needs to demonstrate to the satisfaction of the Commission that:

- (a) there is a clear need for the major investment and it forms part of the Licensee's Resource Plan. In case the major investment proposed in any year of the control period is not covered under the approved Resource Plan, the Licensee has to establish the need, justification and urgency to take up the scheme in the time-frame proposed and
- (b) the Licensee has examined the economic, technical, system and environmental aspects of all viable alternatives to the proposal.

- 1.2 For the purpose of this guideline, the term:

“Scheme” shall mean a proposal for investment in the Transmission or Distribution System embracing a single or a series of investments in or acquisition of any facility/facilities planned at a point of time, with a defined objective and within a defined time frame.

- 1.3 For Schemes involving major investment, before committing any resources (other than those towards making of Detailed Project Report, feasibility studies and other similar preliminaries), the Licensee must receive the approval from the Commission. The Licensee shall approach the Commission for its approval for major investments at least 90 clear days before the proposed start of the Scheme.

- 1.4 The application for approval should be accompanied with information as prescribed by the Commission in these guidelines.

- 1.5 For the purpose of these guidelines, the Schemes may be categorised in the following groups:

- (a) **System improvement:** The schemes under this category shall be those which are primarily driven by a need to improve the performance of the system in terms of reducing losses and/or improving quality and reliability of supply. The Licensee must ensure that the schemes submitted under this category are part of the “System Improvement Plan” component of the Resource Plan.

- (b) **System expansion:** The schemes under this category shall be those which are primarily driven by expected load growth in an area or to serve new connections, and thus include network reinforcement or expansion to cater to such load growth. The Licensee must ensure that these schemes are a part of the “System Expansion Plan” component of the Resource Plan.
- (c) **Generation Evacuation:** The schemes under this category shall include those which are framed for the purpose of evacuation of power generated from a generating station. The Licensee must ensure that these schemes are a part of the “Generation Evacuation Plan” component of the Resource Plan.
- (d) **System Replacement:** The schemes under this category shall include those which are formulated for the purpose of replacing existing assets due to obsolescence of technology, destruction due to accidents/natural calamities or on expiry of its life period.

Information Requirement

1.6 For the approval of any Scheme, the licensees must submit the following:

- (a) The proposal shall have the following Details:
 - (i) Brief outline of the different components that constitute it and the salient features of the Scheme.
 - (ii) The objectives of the Scheme and justification for taking it up. The Licensee shall quantify the objectives for each scheme depending upon the category to which the scheme belongs. For each category, the objectives could be including, but not limited to:
 - System Expansion schemes: The objective is to meet the load growth. This objective could be quantified, say in number of consumers required to be connected, MWs of capacity to be created, expected sales in MUs, number of villages/hamlets/dalitwadadas to be electrified, etc. These schemes should be correlated with the existing/proposed network expansion plans of other licensees and their consent obtained wherever applicable.
 - System Improvement schemes: The objective is to maintain the standards of quality of supply. This objective could be quantified as the extent of loss reduction expected, quantified improvement in reliability or quality of supply or reduction in DTR failures, etc.
 - Generation Evacuation Schemes: The objective is to ensure adequate capacity to evacuate generation. This could be quantified as MWs of power required to be evacuated.

- (iii) The Licensee shall ensure that the proposed investment is a part of the Resource Plan submitted to the Commission in accordance with the paragraph 3 of the Commission's Guidelines for "Load Forecast, Resource Plans and Power Procurement".
- (b) The licensee shall provide inter-alia the following along with the proposal :
 - (i) Complete details of the Scheme such as transmission and/or distribution lines, substations, extension of bays at the existing substations, communication equipment, metering, other ancillary services, etc, as the case may be.
 - (ii) Detailed cost estimates for each item of work covered by the Scheme, erection charges, expenses projected for contingencies, estimated extend of interest during construction, establishment and other charges etc. The cost estimates shall be worked out by the Licensee based on latest cost data. The Licensee, shall as far s possible ensure that the scheme is the same as that contained in the Resource Plan. In case of any deviations, the Licensee shall justify the same to the Commission.
 - (iii) A comprehensive sketch / single line diagrams of the proposed work, grid maps of relevant areas (i.e. areas where the scheme is proposed to be executed).
- (c) The scheme shall be supported by the results of the load flow study, or any other appropriate tools/techniques employed by the Licensee to simulate the impact of the scheme on network performance. The results of the load flow shall be provided for each year up to a period of five years from the date of commissioning of the scheme.
- (d) Benefits:
 - (i) Physical benefits: The proposal shall enumerate the physical benefits such as reduction in transmission / distribution losses, improvement in voltages, reliability of supply, and any other benefits such as increase in sales to subsidising consumers, etc. As far as possible, the benefits shall be indicated depending upon the category of the scheme. In case the schemes are not beneficial, the necessity for schemes must be established clearly.
 - (ii) Financial benefits: The proposal shall bring out the financial benefits, by way of anticipated reduction in losses, etc.. The financial benefits must be supported by detailed calculations and, discounted cash flows are to be shown to demonstrate the payback period of the investment.

- (iii) The Licensee shall also propose the methodology of evaluation and measurement of the benefits accruing out of the investment.
- (e) Cost - Benefit analysis: The Licensee shall carry out a study to bring out all possible alternatives to the proposed scheme, including non-network alternatives, to achieve the desired objectives and to ensure the proposed option was the least cost option available. The Licensee shall, while conducting this study, examine the economic, technical and environmental aspects of all such alternatives. Detailed description of the alternatives and the analysis done to evaluate them will have to be submitted to the Commission.
- (f) Sanctions and Statutory clearances
 - (i) The total project cost shall be matched by corresponding means of financing. The financial plan will contain details regarding the Funding agency and the loan terms and conditions such as interest rate, repayment schedule, moratorium period, exchange rate, etc.
 - (ii) Submission of documents pertaining to administrative clearance and financial tie-up or in principle approval for the same.
- (g) Commissioning schedule
 - (i) The planned commissioning schedule shall indicate commissioning for the works/modules including the components comprising the Scheme. If the scheme consists of separate, independently usable modules, separate commissioning schedules shall be indicated for each such module of the scheme.
 - (ii) The Licensee shall furnish information regarding the phasing of expenditure year wise for each work/module, supported with details of corresponding sources of funding. The Licensee must endeavour that the cumulative total expenditure on a Scheme does not exceed the amount as approved by the Commission.
- (h) Downstream Arrangements

The proposal shall contain the downstream arrangements if any and their status for utilisation of the benefits from the proposed Scheme. The details of the downstream arrangements, their status and the programme for their completion shall be furnished.
- (i) Constraints
 - (i) Physical and financial constraints, if any, in execution of the Scheme may be highlighted.

- (ii) Likely uncertainties or risks the Licensee expects to meet and the decisions made under these uncertainties shall be mentioned. The plan adopted by the Licensee to mitigate these risks and uncertainties shall be furnished to the Commission.
 - (iii) The Licensee should indicate to the Commission if it has any information constraint. If Licensee is not in a position to provide the above details for any Schemes, it should indicate to the Commission the costing of one indicative work and indicate the budgetary provision for the entire Scheme.
- 1.7 As part of the approval granting process, the Commission can ask the Licensee to furnish additional information as and when the Commission feels it appropriate. Each Licensee shall furnish to the Commission the information on or before such date as may be directed by the Commission.

Periodic Reporting

- 1.8 The Licensee shall submit to the Commission periodic progress reports duly correlated to the commissioning schedules. This monitoring shall take place at the end of every half-year. The Licensee shall submit to the Commission a progress report within 15 days of end of each such monitoring period. This progress report should provide details of the progress made in each of the approved Schemes.
- 1.9 The Licensee shall indicate the expenditure incurred till the reporting period vis-à-vis the provisions approved by the Commission while approving the investment Scheme.
- 1.10 The Licensee shall submit the details of the Scheme completed indicating the original cost, interest during construction, expenses capitalised and original schedule of completion, as approved by the Commission for such scheme along with the actual cost, interest during construction, expenses capitalised, etc. and, date of completion.
- 1.11 On completion of a scheme or a usable module of the scheme, a Physical Completion Certificate (PCC) to the effect that the work in question has been fully executed, physically, and the assets created are put to use, is required to be issued by the engineer concerned not below the rank of Superintendent Engineer. The PCC shall be accompanied with a Financial Completion Certificate (FCC) to the effect that the assets created have been duly entered in the Fixed Assets Register by transfer from the CWIP register to OCFA. The FCC shall have to be issued by an officer not below the rank of Senior Accounts Officer. The Licensee shall submit these certificates to the Commission within 60 days of completion of work/module/scheme, at the latest.
- 1.12 The Commission or its authorized representative shall have the right to verify the correctness of the PCC and FCC.

- 1.13 The Licensee shall also undertake a post-completion review of the Scheme to assess whether the objective of the investment is met or not and whether or not the desired benefits are accruing from the Scheme and submit a report to the Commission after twelve months of its completion.

General

- 1.14 The waiver granted for implementing Schemes below Rs. 500 lakhs relaxes only the requirement of obtaining prior Commission approval for the investment. The Commission still retains the authority to assess the efficiency and economy with which the Licensee makes any investment and to verify that these investments are consistent with the spirit of the Licence and the Act, and for this purpose may require the Licensee to furnish details of any such scheme, from time to time.
- 1.15 If it comes to the Commission's notice that the quality of supply to consumers in a particular area is below the standards set out by the Commission due to lack of investments in the Transmission System or Distribution System in that area, the Commission may *suo motu* direct the Licensee to make investment in Schemes that would result in improvement of the quality of supply. Provided however that while issuing such a direction, the Commission would take into consideration the Licensee's resource position.
- 1.16 Based on the information provided by the Licensee as per the process as specified in the preceding paragraphs, the Commission may, if it comes to the conclusion that the Licensee had not followed the provisions of the guidelines or has been guilty of negligence or wilful default in implementing a Scheme which are not consistent with the objectives sought to be achieved by such investments, disallow recovery of such cost in the Tariff Order or pass such other orders, as the Commission may consider appropriate.
- 1.17 If the assessment suggests that the company has overestimated the amount needed for investments, the Commission reserves the right to reduce the project cost of the scheme and take any other action it deems appropriate.
- 1.18 The Commission retains the power to add, vary, alter, amend, change, modify or otherwise substitute the above guidelines or any part thereof in such manner and at any time the Commission may consider appropriate. The Licensee shall not claim any vested right in the facility given by these guidelines, if the Commission decide to add, modify, alter, change etc the guidelines or any part thereof.
- 1.19 Without prejudice to the above the Commission may at any time direct the Licensee to comply with such further or other conditions as the Commission may consider appropriate for undertaking investments consistent with the objects of the Andhra Pradesh Electricity Reform Act, 1998 (Act No. 30 of 1998), the Electricity Act, 2003, the Regulations framed thereunder and the terms and conditions contained in the Licences issued by the Commission.

- 1.20 Any violation of these conditions shall be a breach of the obligations assumed by the Licensee under Transmission & Bulk Supply Licence and/or the Distribution and Retail Supply Licence and may be subjected to the same proceedings as if the terms of the licence conditions have been violated or not complied with by the Licensee.