



MINISTRY OF POWER
GOVERNMENT OF INDIA

GUIDELINES FOR NATIONAL ELECTRICITY FUND (INTEREST SUBSIDY SCHEME)



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**No. 24/01/2012-APDRP
Government of India
Ministry of Power**

**Shram Shakti Bhavan, Rafi Marg,
New Delhi, Dated: 5th July, 2012**

OFFICE MEMORANDUM

Subject: Guidelines for Operationalisation of National Electricity Fund (Interest subsidy) Scheme

1. BACKGROUND

The creation of National Electricity Fund (NEF) was announced in budget speech to mitigate the funding gap and expedite the reform process particularly in Distribution sector, which requires huge capital investment. The distribution sector is the most important link in the power sector value chain, which channelizes the revenue realization to provide overall stability to the sector.

The requirement of funds for the power sector for the XI Plan was estimated at Rs 10,59,515 crore which includes Rs 5,91,734 crore for the Generation sector, Rs 15875 Crores for Renovation & Modernization of existing Generation plants & Rs 4,49,577 crore for the Transmission and Distribution (T&D) sector. The actual expenditure in the Distribution sector is much below the estimates due to various reasons during the XI Plan, resulting in huge funding gap. The Creation of National Electricity Fund becomes more relevant since this will encourage utility to match the investments with the planned Generation during XII Plan.

2. INTRODUCTION TO THE NEF SCHEME

Government of India has approved the NEF (Interest Subsidy) Scheme to promote the capital investment in the distribution sector by providing interest subsidy, linked with reform measures, on the loans taken by public and private power utilities for various capital works under Distribution projects. This scheme shall be applicable in the entire country and all distribution projects shall be considered. The works covered under RGGVY & R-APDRP projects shall not be eligible to ensure non-duplication and non-overlapping of grant/subsidy towards investment.

Ministry of Power issued Office Memorandum No 24/01/2012-NEF /APDRP dated 14th March 2012 (copy enclosed as **Annexure-I**) regarding setting up of National Electricity Fund (Interest Subsidy Scheme). Ministry of Power has also constituted a Steering Committee vide Office Memorandum (OM) 24/2/2012-NEF/APDRP dated 13 Feb 2012 (copy enclosed as **Annexure-II**) for ensuring effective implementation of the scheme.

3. DEFINITIONS AND ABBREVIATIONS

3.1. In these Guidelines, unless the context otherwise requires,:-

- i. **Act**, means the Electricity Act, 2003 (36 of 2003);

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- ii. **Annual Accounts**, means the company's accounts/ report that are prepared at the end of a Financial Year to showcase the company's financial strength, and should comprise of Balance Sheet, Profit & Loss Account and Cash Flow Statement, along with relevant schedules and statements;
 - iii. **Average Revenue Realized (ARR)**, means average revenue per unit collected on subsidy received basis (Rs/kWh).
 - iv. **Baseline parameters**, means the parameters on which utilities shall be assessed for evaluation of interest subsidy under National Electricity Fund (Interest Subsidy) scheme. For the scheme, baseline parameters are Aggregate Technical & Commercial (AT&C) Losses, Average Cost of Supply (ACS), and Average Revenue Realized (ARR). These baseline parameters would be computed for the total area of operation of a utility and would not be specific to any town/city/project area covered by a utility;
 - v. **Borrower**, means the Utilities - State Power Utilities, State Power Departments and Distribution Companies in both Public & Private Sector in the States & Union Territories. Borrower would be the 'beneficiary' of the interest subsidy subject to the fulfillment of the prescribed conditions and scoring necessary aggregate marks, as stipulated in these guidelines;
 - vi. **Business Plan**, means the financial statements prepared by utilities showing details of all its identified cash flows and means of financing them. The financial statements to be prepared would include cash flows, the profit and loss statement and balance sheets for achieving either financial turnaround and/ or sustaining profitability defining financial milestones with identifiable means;
 - vii. **Current year**, means the Financial Year in which a utility has sought the benefits under NEF (Interest Subsidy) scheme.
 - viii. **Distribution Company**, means the Public / Private company engaged in the licensed business for sale of electricity to the consumers within the area of supply in accordance with the terms of the license for distribution and retail supply of electricity;
 - ix. **Distribution Sector Infrastructure**, means that the infrastructure needed to facilitate distribution of power from sub transmission level (on or below 66 or 33 KV as the case may be) up to consumer end.
 - x. **Eligibility criteria**, means the criteria which are required to ascertain the rate of interest subsidy and is linked to the progress achieved in reforms i.e. reduction in AT&C losses, reduction in revenue gap (ACS - ARR) and meeting the conditions of return on equity and Multi Year Tariff (MYT) Regulations;
 - xi. **Entities**, means all utilities as defined in these guidelines;
 - xii. **Financial Year**, means the year commencing from 1st April of a calendar year and ending on 31st March of the subsequent calendar year.
 - xiii. **Focused States**, means the states of Bihar & Jharkhand.

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- xiv. **Independent Evaluator** means the agency(s) appointed for evaluation of proposals & determination of baselines parameters and other functions like computation of applicable Interest subsidy etc.
 - xv. **JERC**, means Joint Electricity Regulatory Commission;
 - xvi. **Lenders**, means the Financial Institutions (FI) including REC/ PFC, other commercial banks & Bi-lateral & Multilateral FI's.
 - xvii. **MoP**, means the Ministry of Power;
 - xviii. **MYT regulations**, means the Multi Year Tariff regulations notified by the appropriate Commission;
 - xix. **NEF**, means the National Electricity Fund;
 - xx. **NTP**, means the National Tariff Policy, 2006;
 - xxi. **Nodal Agency**, means the agency appointed for the operationalisation and implementation of the NEF (Interest Subsidy) scheme in the entire country;
 - xxii. **PFC**, means the Power Finance Corporation Limited;
 - xxiii. **Pre-eligibility conditions**, means the conditions for determining the pre-eligibility to avail interest subsidy and are linked to the reform measures. These conditions are operationalisation of SERC/ JERC, formulation of business plan, reorganization of State Electricity Boards (SEB), release of subsidy by State Government, submission of audited annual accounts and timely filing of tariff petition;
 - xxiv. **Project Area**, means the areas covered in projects eligible under NEF (Interest Subsidy) scheme;
 - xxv. **Proposal**, means the set of documents submitted by borrowers to Nodal Agency for availing benefits under NEF (Interest Subsidy) scheme;
 - xxvi. **REC**, means the Rural Electrification Corporation Limited;
 - xxvii. **Resource Plan**, means the plan submitted to the Planning Commission by the State Government wherein the plan includes the estimation of resources to meet the revenue and capital expenditure of the Utility as well as the actual revenue and capital expenditure incurred in previous year(s).
 - xxviii. **RGVY**, means Rajiv Gandhi Grameen Vidyutikaran Yojana;
 - xxix. **ROCE**, means Return on Capital Employed, as defined by the SERC/JERC in its Tariff Order/ Tariff Regulations
 - xxx. **R-APDRP**, means the Restructured Accelerated Power Development and Reforms Programme;
 - xxxi. **SERC**, means the State Electricity Regulatory Commission;

- xxxii. **State Power Utility**, means the State Electricity Board (SEB) undertaking the integrated functions of all or either of Generation, Transmission and Distribution of electricity in a State;
- xxxiii. **State Power Department**, means the Department of State Government, responsible for undertaking the integrated functions of all or either of Generation, Transmission and Distribution of electricity in a State;
- xxxiv. **Steering Committee**, means the committee constituted by MoP to ensure the smooth and effective implementation of NEF (Interest Subsidy) scheme;
- xxxv. **Tariff Petition**, means the tariff application with statements as per applicable regulations stipulated by appropriate Commission. The Tariff Petition would also include the petition for Annual Revenue Requirement under annual tariff framework or Aggregate Revenue Requirement under Multi Year Tariff framework;
- xxxvi. **Utility**, means the State Power Utilities, State Power Departments and Distribution Companies in both Public & Private Sector in the States & Union Territories, engaged in the business of sale of electricity to the retail consumers within the area of supply in accordance with the terms of the license for distribution and retail supply of electricity;

4. **SCOPE AND ELIGIBILITY UNDER THE NEF (INTEREST SUBSIDY) SCHEME**

- 4.1. **Eligible entities for availing NEF (Interest subsidy) Scheme:** All State Power Utilities, State Power Departments and Distribution Companies in both Public & Private Sector in the States & Union Territories engaged in the business of sale of electricity to the retail consumers within the area of supply in accordance with the terms of the license for distribution and retail supply of electricity would be eligible for availing interest subsidy under NEF scheme.
- 4.2. **Eligible Projects:** All Distribution Sector Infrastructure capital projects are eligible under the NEF (Interest Subsidy) Scheme provided that the proposed works have not been funded through the R-APDRP or RGGVY schemes. The projects for which any other grant / subsidy from Government of India has already been received / allocated will not be eligible under this scheme. The illustrative list of these eligible projects is enclosed as **Annexure-III**. Works similar to R-APDRP shall also be eligible under the scheme.

The loans taken by utilities from bi-lateral / multilateral FIs for eligible project shall be considered for extending benefit of the NEF if no concession has been provided by Govt. of India or on behalf of Govt. of India

The capital works undertaken by the utility or franchisee on behalf of utility in the notified franchisee area would also be eligible for benefit under NEF scheme if provision of availability of NEF scheme is specifically mentioned in the bidding document for appointing franchisee. The performance criteria's of the utility shall be taken into consideration for evaluation of eligible subsidy. The eligible interest subsidy will be released to the Utility and Utility shall make back-to-back arrangements with franchisee for passing benefits under this scheme to the consumer.

The Steering Committee is empowered to include any other type of project for being eligible under this scheme.

- 4.3. **Eligible Loans:** The projects sanctioned by the lenders (REC, PFC, other commercial banks and Bi-lateral & Multilateral FI's) shall be considered by Steering Committee during FY 2012-13 and FY 2013-14 provided no disbursements has been made by the lenders under these projects prior to submission of proposal to the Steering committee.
- 4.4. **Enhancement of Loan amount during Implementation:** Enhancement in loan amount during implementation shall be considered only on account of cost-escalation built in the original sanction by the lenders. No enhancement on account of change in scope of project shall be considered.
- 4.5. **Period of Interest subsidy:** The tenure of loans for any eligible project under NEF (Interest Subsidy) scheme would be for a maximum period of 13 years i.e. interest subsidy can be extended up to 2025-26 and 2026-27 for the project sanctioned during 2012-13 and 2013-14 respectively.

5. **CONDITIONS FOR AVAILING BENEFITS UNDER NEF SCHEME**

- 5.1. The utility seeking benefit under the NEF scheme will have to meet pre-eligibility conditions as defined under Para 5.3 . The utility meeting the pre-eligibility conditions will then be evaluated and assigned marks on the basis of the achievements against the parameters defined under Para 5.4. The utility will then be categorized for computation of interest subsidy on the basis of the aggregate marks scored, as defined under Para 5.5 . The utility needs to submit their proposals every year for evaluation of these conditions.
- 5.2. There are two groups of states/ UT'S based upon the applicability of conditions as defined under Para 5.3 & 5.4 :

- a) **Group I:** Utilities in 'Union Territories & Other than Special category and Focused States'

Other than Special category and Focused States are Haryana, Punjab, Rajasthan, Uttar Pradesh, Delhi, Gujarat, Odisha, West Bengal, Andhra Pradesh, Madhya Pradesh, Chhattisgarh, Karnataka, Maharashtra, Kerala and Tamil Nadu & Goa.

The **Union Territories** are Chandigarh, Puducherry, Andaman & Nicobar Islands, Daman & Diu, Dadar & Nagar Haveli and Lakshadweep.

- b) **Group II:** Utilities in 'Special category & Focused states:

Special category States are North-east States (Assam, Meghalaya, Mizoram, Tripura, Arunachal Pradesh, Manipur and Nagaland), Sikkim, Uttarakhand, Himachal Pradesh and Jammu & Kashmir.

Focused States are Bihar & Jharkhand.

The utilities under Group-I & II are further sub-grouped as under:

- i) Utilities operating as **State Power Department;**
- ii) Utilities operating as **State Power Utilities/ Private Distribution Companies;**

5.3. Pre-eligibility conditions for availing interest subsidy

a) **Group I : Utilities operating as State Power Department in 'Other than special category and focused States'**

S.No.	Pre-eligibility conditions	Utilities operating as State Power Departments
i)	Operationalization of SERC/ JERC	√
ii)	Formulation of Business Plan	√
iii)	Re-organization of the SEBs	x
iv)	Release of Subsidy by State Government	√
v)	Audited Annual Accounts	x #
vi)	Timely filing of Tariff petition	√

#State Power Departments are required to submit 'Annual Resource Plan' as submitted to Planning Commission or State Planning department.

The compliance of above Pre-eligibility conditions is detailed as under:

i) **Operationalisation of State Electricity Regulatory Commission (SERC/ JERC)**

The SERC/ JERC has been operationised in the utility's State and tariff order for determination of retail tariff has been issued by Appropriate Commission in accordance with Section 62 of the Electricity Act 2003.

ii) **Formulation of Business Plan**

The utilities to submit the detailed business plan for financial turnaround and/ or sustaining profitability for a time period of 5 years defining financial milestones with identifiable means.

For above purpose, the business plan shall be as follows:

- **For Utility in losses:** Business Plan shall include Financial turnaround plan where Profit after Tax (PAT) becomes positive in any given year during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed and continues to remain positive during the remaining years of business plan period.

Or

- **For Utility in Profits:** Business Plan shall showcase sustaining profitability (PAT) during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed.

The approval of State Government is required, in case Business Plan envisages support of the State Government. The investments reflected in the business plan must have been approved by SERC/ JERC.

iii) **Re-organization of State Electricity Boards (SEBs)**

The Pre-eligibility condition of Re-organization of the SEBs shall not be applicable for Power departments

iv) **Release of Subsidy by State Government**

The subsidy amount for the previous year has been received and provision has been made for current year in the State Annual Budget. The borrower(s) to provide authentic documents regarding confirmation of compliance of this pre-eligibility condition.

In case subsidy for the sanction year is not released by the State Government, at the time of seeking release of interest subsidy, the approved interest subsidy would not be disbursed for the particular year.

v) **Audited Annual Accounts**

The Pre-eligibility condition of submission of Audited Annual Accounts shall not be applicable for Power departments.

However, the utilities working as State power Departments would be required to submit the Annual Resource Plan, as submitted to the Planning Commission or State Planning Deptt.

vi) **Timely Filing of Tariff Petition**

The Tariff Order for the current year should have been issued by the SERC/ JERC, in case the utility seeks financial assistance on or before 30 November of current Financial Year.

In case the utility seeks financial assistance after the month of November of current Financial Year, the Tariff Order for the current year should have been issued by the SERC/ JERC and the tariff petition for the ensuing Financial Year should have been filed by the utility.

b) **Group I: Utilities operating as State Power Utilities/ Private Distribution Companies in 'Other than special category and focused States'**

S.No.	Pre-eligibility conditions	Utilities operating as State Power Utilities/ Private Distribution Companies
i)	Operationalization of SERC/ JERC	√
ii)	Formulation of Business Plan	√
iii)	Re-organization of the SEBs	√
iv)	Release of Subsidy by State Government	√
v)	Audited Annual Accounts	√
vi)	Timely filing of Tariff petition	√

Adherence required (√) / Exempted (x)

The compliance of above Pre-eligibility conditions is detailed as under:

i) **Operationalisation of State Electricity Regulatory Commission (SERC/ JERC)**

The SERC/ JERC has been operationalised in the utility's State and tariff order for determination of retail tariff has been issued by Appropriate Commission in accordance with Section 62 of the Electricity Act 2003 .

ii) **Formulation of Business Plan**

The utilities to submit the detailed business plan for financial turnaround and/ or sustaining profitability for a time period of 5 years defining financial milestones with identifiable means.

For above purpose, the business plan shall be as follows:

- **For Utility in losses:** Business Plan shall include Financial turnaround plan where Profit after Tax (PAT) becomes positive in any given year during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed and continues to remain positive during the remaining years of business plan period.

Or

- **For Utility in Profits:** Business Plan shall showcase sustaining profitability (PAT) during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed.

The approval of State Government is required, in case Business Plan envisages support of the State Government. The investments reflected in the business plan must have been approved by SERC/ JERC.

iii) **Re-organization of State Electricity Boards (SEBs)**

The State Electricity Boards is reorganized in accordance with Section 131 of the Electricity Act 2003.

The following criteria's needs to be met for Re-organization of SEB:

- Opening balance sheet has been prepared for the newly formed successor utilities;
- Transfer Scheme has been notified by the State Government.
- Separate companies for Generation, Transmission & Distribution functions has been formed;
- Operations by the newly formed successor utilities have commenced;

iv) **Release of Subsidy by State Government**

The subsidy amount for the previous year has been received and provision has been made for current year in the State Annual Budget. The borrower(s) to provide authenticate documents regarding confirmation of compliance of this pre-eligibility condition.

In case subsidy for the sanction year is not released by the State Government, at the time of seeking release of interest subsidy, the approved interest subsidy would not be disbursed for the particular year.

v) **Audited Annual Accounts**

The utility (other than Private Distribution Companies) should submit Audited Annual Accounts for the Financial Year (n-2), where n is the current Financial Year in which proposal is submitted. However, the Private Distribution Companies are required to submit Audited Annual Accounts for the financial Year (n-2), if the utility seeks financial assistance before 30th September of current financial year (n) and in case financial assistance under NEF is sought on or after 1st October of the current financial year(n),

the audited Annual Accounts for the preceding financial year (n-1) should be submitted.

vi) **Timely Filing of Tariff Petition**

The Tariff Order for the current year should have been issued by the SERC/ JERC, in case the utility seeks financial assistance on or before 30 November of current Financial Year.

In case the utility seeks financial assistance after the month of November of current Financial Year, the Tariff Order for the current year should have been issued by the SERC/ JERC and the tariff petition for the ensuing Financial Year should have been filed by the utility.

c) **Group II: Utilities operating as State Power Department in 'Special category & focused states '**

S.No.	Pre-eligibility conditions	Utilities operating as State Power Departments
a.	Operationalization of SERC/ JERC	×
b.	Formulation of Business Plan	√
c.	Re-organization of the SEBs	×
d.	Subsidy	√
e.	Audited Annual Accounts	× #
f.	Timely filing of Tariff petition	×

Adherence required (√) / Exempted (×)

#State Power Departments are required to submit 'Annual Resource Plan' as submitted to Planning Commission or State Planning department.

The compliance of above **Pre-eligibility conditions** is detailed as under:

i) **Operationalisation of State Electricity Regulatory Commission (SERC/ JERC)**

The Pre-eligibility condition of Operationalisation of State Electricity Regulatory Commission (SERC/ JERC) shall not be applicable.

ii) **Formulation of Business Plan**

The utilities to submit the detailed business plan for financial turnaround and/ or sustaining profitability for a time period of 5 years defining financial milestones with identifiable means.

For above purpose, the business plan shall prepare as follows:

- **For Utility in losses:** Business Plan shall include Financial turnaround plan where Profit after Tax (PAT) becomes positive in any given year during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed and continues to remain positive during the remaining years of business plan period.

Or

- **For Utility in Profits:** Business Plan shall showcase sustaining profitability (PAT) during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed.

The approval of State Government is required, in case Business Plan envisages support of the State Government. The investments reflected in the business plan must have been approved by SERC/ JERC.

iii) **Re-organization of State Electricity Boards (SEBs)**

The State Power Departments in this group are exempted from meeting this condition.

iv) **Release of Subsidy by State Government**

The subsidy amount for the previous year has been received and provision has been made for current year in the State Annual Budget. The borrower(s) to provide authentic documents regarding confirmation of compliance of this pre-eligibility condition.

In case subsidy for the sanction year is not released by the State Government, at the time of seeking release of interest subsidy, the approved interest subsidy would not be disbursed for the particular year.

v) **Audited Annual Accounts**

The Pre-eligibility condition of Submission of Audited Annual Accounts shall not be applicable for Power departments.

However, the utilities working as State power Departments would be required to submit the Annual Resource Plan, as submitted to the Planning Commission or State Planning Deptt.

vi) **Timely Filing of Tariff Petition**

The State Power Departments in this group are exempted from meeting this condition.

d) **Group II : Utilities operating as State Power Utilities/ Private Distribution Companies in 'Special category & focused states'**

S.No.	Pre-eligibility conditions	Utilities operating as State Power Utilities/ Private Distribution Companies
a.	Operationalization of SERC/ JERC	√
b.	Formulation of Business Plan	√
c.	Re-organization of the SEBs	x *
d.	Subsidy	√
e.	Audited Annual Accounts	x *
f.	Timely filing of Tariff petition	√

* These pre eligibility conditions have to be aligned with pre eligibility conditions of Utilities operating as State Power Utilities/ Private Distribution Companies under Group-I after 3 years of operationalization of the scheme.

The compliance of above **Pre-eligibility conditions** is detailed as under:

i) Operationalisation of State Electricity Regulatory Commission (SERC/ JERC)

The SERC/JERC has been formed in the utility's State and tariff order for determination of retail tariff has been issued by Appropriate Commission (SERC/JERC) in accordance with Section 62 of the Electricity Act 2003.

ii) Formulation of Business Plan

The utilities to submit the detailed business plan for financial turnaround and/ or sustaining profitability for a time period of 5 years defining financial milestones with identifiable means.

For above purpose, the business plan shall prepare as follows:

- **For Utility in losses:** Business Plan shall include Financial turnaround plan where Profit after Tax (PAT) becomes positive in any given year during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed and continues to remain positive during the remaining years of business plan period.
- Or
- **For Utility in Profits:** Business Plan shall showcase sustaining profitability (PAT) during the business plan period (at least 5 years) including the year in which the interest subsidy is being claimed.

The approval of State Government is required, in case Business Plan envisages support of the State Government. The investments reflected in the business plan must have been approved by SERC/ JERC.

iii) Re-organization of State Electricity Boards (SEBs)

Utilities in this category are exempted for compliance of this pre-eligibility condition for 3 years from operationalization of scheme. This pre eligibility conditions is required to be aligned after 3 years of operationalization of the scheme with pre eligibility conditions of Utilities operating as State Power Utilities/ Private Distribution Companies under Group-I

After three years of operationalisation of the NEF scheme the State Electricity Boards are required to be reorganized in accordance with Section 131 of the Electricity Act 2003 and the following criteria's needs to be met for Re-organization of SEB:

- Opening balance sheet has been prepared for the newly formed successor utilities;
- Transfer Scheme has been notified by the State Government.
- Separate companies for Generation, Transmission & Distribution functions has been formed;
- Operations by the newly formed successor utilities have commenced;

iv) Release of Subsidy by State Government

The subsidy amount for the previous year has been received and provision has been made for current year in the State Annual Budget. The borrower(s) to provide authenticate documents regarding confirmation of compliance of this pre-eligibility condition. In case subsidy for the sanction year is not released by the State Government, at the time of seeking release of interest subsidy, the approved interest subsidy would not be disbursed for the particular year.

v) Audited Annual Accounts

In case Audited Annual Accounts of State Power Utility (other than Private Distribution Companies) are not available for the Financial Year (n-2), where n is the current Financial Year, the latest available Audited Annual Accounts needs to be submitted by the utility.

However, these utilities are required to be aligned, **after 3 years of operationalization of the scheme**, with pre eligibility conditions of Utilities operating as State Power Utilities under Group-I.

Private Distribution Companies are required to submit Audited Annual Accounts for the financial Year (n-2), if the utility seeks financial assistance before 30th September of current financial year (n) and in case financial assistance under NEF is sought on or after 1st October of the current financial year (n), the audited Annual Accounts for the preceding financial year (n-1) should be submitted.

vi) Timely Filing of Tariff Petition

For utility operating as State Power Utility, the Tariff Order for the current year should have been issued by the SERC/JERC, in case the utility seeks financial assistance on or before 30 November of current Financial Year.

In case the utility seeks financial assistance after the month of November of current Financial Year, the Tariff Order for the current year should have been issued by the SERC/JERC and the tariff petition for the ensuing Financial Year should have been filed by the utility.

5.4. Evaluation of Interest Subsidy on basis of baseline parameters

The utilities meeting above Pre-eligibility conditions will be evaluated and assigned marks on the basis of the achievements against the baseline parameters.

The eligibility of interest subsidy to be provided under this scheme would depend upon the aggregate scores achieved for various reforms measures undertaken by Utilities under Group-I and Group-II.

The base year for computation of achievement will be FY (n-1). For eg, for evaluation of interest subsidy of FY 2012-13 (n), the base year shall be 2011-12 (n-1). Reduction in AT&C Losses & Reduction in gap (Rs./kwh) (ACS- Avg. Revenue on subsidy received basis) shall be computed for FY (n) over FY (n-1).

a) Eligibility criteria :

i) Reduction in Aggregate Technical & Commercial (AT&C) Losses

The AT&C losses at utility level shall be computed by Independent Evaluator appointed by Nodal Agency on the basis of Audited Annual Accounts of the Utility. The 'Reduction in AT&C Losses' for the FY (n), where n is year for which subsidy is being claimed shall be computed over the base year FY(n-1) i.e. for evaluation of interest subsidy of FY 2012-13 (n) the base year shall be 2011-12 (n-1).

The scoring of 'Reduction in AT&C losses' will be done proportionately i.e. the marks shall be allocated on proportionate basis.

No marks will be allocated if reduction in AT&C losses is less than 6% over the previous year. On reaching the AT&C loss levels of absolute 8% the utility would be expected to maintain the same level to achieve maximum marks.

Marks shall be assigned to the utility as per the following criteria for achievement in reduction of AT&C losses:

Utilities in ----->	Group-I	Group-II
Reduction in AT&C Losses achieved	Score	Score
Reduction by 10% over previous year	50	75
Reduction by 8% over previous year	40	60
Reduction by 6% over previous year	30	45

- ii) **Reduction in Revenue Gap on subsidy received basis (Rs/kWh)-** Revenue Gap (Rs./kWh) on subsidy received basis= Average Cost of Supply (ACS) – Average Revenue on subsidy basis (ARR)

The Reduction in Revenue Gap (Rs./kWh) at utility level shall be computed by Independent Evaluator appointed by Nodal Agency on the basis of Audited Annual Accounts of the Utility. The 'Reduction in Revenue Gap (Rs./kWh)' for the FY (n), where n is year for which subsidy is being claimed shall be computed over the base year FY(n-1) i.e. for evaluation of interest subsidy of FY 2012-13 (n) the base year shall be 2011-12 (n-1).

The scoring of Reduction in Revenue Gap (Rs./kWh) will be done proportionately i.e. the marks shall be allocated on proportionate basis and no marks will be allocated if reduction in gap over previous year is less than 15%.

Marks shall be assigned to the utility as per the following criteria for achievement in Reduction of Gap:

Utilities in ----->	Group-I	Group-II
Reduction in Gap achieved	Score	Score
If the Average Revenue Realized per unit on subsidy received basis is higher than the Average Cost Supply	40	25
Reduction in gap by 25% over previous year	30	20
Reduction in gap by 20% over previous year	20	15
Reduction in gap by 15% over previous year	10	10

iii) Return on Equity (RoE)

For Group-I

If the SERC/ JERC have allowed RoE or ROCE or any other reasonable return, as per the Para 5.3 (a) of the National Tariff Policy and/or the applicable regulations issued by SERC/ JERC in this regard, the utility would be assigned a total of 5 marks, otherwise no marks would be assigned. The evaluation of this parameter will take place on the basis of information submitted by the Utility in the form of certified copies of the relevant order of SERC/ JERC.

For Group-II

No score shall be assigned for these utilities against this parameters. However, if the SERC/ JERC have not allowed RoE or ROCE or any other reasonable return up to 31st March 2014, the utility would face provision for penalty as defined in Para 5.6 of these guidelines. The evaluation of the parameter after 31st March 2014 will take place on the basis of information submitted by the Utility in the form of certified copies of the relevant order of SERC/JERC.

iv) Notification of Multi Year Tariff (MYT) Regulation

For Group-I

If the SERC/JERC has issued MYT Regulation for the utility, 5 marks would be assigned, otherwise no marks would be assigned. The evaluation of this parameter will take place on the basis of information submitted by the Utility in the form of certified notification of the relevant regulation issued by SERC/ JERC.

For Group-II

No score shall be assigned for these utilities against this parameters. However, in case the SERC/ JERC have not issued MYT Regulations for the utility up to 31st March 2014, the utility would face provision for penalty as defined in Para 5.6 of these guidelines. The evaluation of this parameter will take place on the basis of information submitted by the Utility in the form of certified notification of the relevant regulation issued by SERC/JERC.

5.5. Categorization for computation of Interest Subsidy rates

Based upon the aggregate scores of the Utilities on parameters as mentioned in Para 5.4, they will be categorized for computation of interest subsidy rates allowed as follows

a) For Utilities under Group-I:

Category	Score (out of total of 100 Marks)	Subsidy in Interest Rate (%)
Category A	Greater than or equal to 75	5
Category B	Less than 75 but more than or equal to 50	4
Category C	Less than 50 but more than or equal to 35	3

Note: Utility scoring less than 35% shall not be eligible for Interest subsidy

b) For Utilities under Group-II:

i) Applicable up to 31st March 2014:

Category	Score (out of total of 100 Marks)	Subsidy in Interest Rate (%)
Category A	Greater than or equal to 60	7
Category B	Less than 60 but more than or equal to 40	6
Category C	Less than 40 but more than or equal to 30	5

Note: Utility scoring less than 30 marks shall not be eligible for Interest subsidy.

ii) Applicable from 1st April 2014 onwards:

Category	Score (out of total of 100 Marks)	Subsidy in Interest Rate (%)
Category A	Greater than or equal to 75	7
Category B	Less than 75 but more than or equal to 50	6
Category C	Less than 50 but more than or equal to 35	5

Note: Utility scoring less than 35% shall not be eligible for Interest subsidy.

5.6. Provision for Penalty

- a) If the 'RoE or ROCE' or any other reasonable return, in terms of National Tariff Policy or applicable State Regulations, is not allowed by Appropriate Commission by 31st March, 2014 for utilities under Group-II, then utility will face a penalty in the form of withdrawal of 0.25% of interest subsidy. The penalty will be a reduction of 0.25% from the applicable subsidy and not 0.25% of the applicable subsidy.
- b) If the 'Multi Year Tariff' is not allowed by Appropriate Commission by 31st March, 2014 for utilities under Group-II, then utility will face a penalty in the form of withdrawal of 0.25% of interest subsidy. The penalty will be a reduction of 0.25% from the applicable subsidy and not 0.25% of the applicable subsidy.

6. MECHANISM TO AVAIL BENEFITS UNDER NEF (INTEREST SUBSIDY) SCHEME

6.1. Submission of Proposal for sanction under NEF Scheme

- a) All the Project Proposals should be recommended by the Distribution Reforms Committee (DRC) at the State level. The eligible projects of Private Discoms shall also be approved by SERC/JERC.
- b) The borrower/utility, through its lender, along with sanction of loan for the eligible project, would then approach the Nodal Agency for evaluation of eligibility under the scheme.
- c) Nodal Agency would get the proposal evaluated by Independent Evaluator for eligibility under the scheme.

- d) Based on the evaluation of the Independent Evaluator, the Nodal agency would appraise the proposal and accordingly recommend to the Steering Committee for consideration.
- e) Nodal Agency would intimate the decision of Steering Committee, to the respective lender & Borrower/utility.
- f) Lender would conduct their due diligence and start disbursing the loan amount to the borrower/utility.
- g) The Borrower/Utility, through its lender would be required to submit the requisite information, but not limited to, as per the Templates provided by Nodal Agency.

6.2. For evaluation of interest subsidy rate and quantum of subsidy (on annual basis)

- a) Borrower/utility, through its lender would submit the requisite information in prescribed formats to ensure compliance of pre-eligibility as per Para 5.3 and computation of eligibility criteria as per Para 5.4, for evaluation of interest subsidy rate and quantum of subsidy amount on reimbursement basis.
- b) The respective borrower/utility, through its lender would be required to submit the details of loan disbursement & actual interest paid along with the other relevant documents duly verified by the respective lender.
- c) The Interest subsidy shall be computed separately for each tranche of loan, as per the actual disbursement and interest payment against each tranche;
- d) The Nodal Agency through the Independent Evaluator would assess the borrower/utility proposal to ascertain the interest subsidy and submit recommendations on the proposal to the Steering Committee for consideration.
- e) After approval of Steering Committee, the interest subsidy amount for the respective year would be released to the Lender through nodal agency. Lenders shall, on receipt of interest subsidy from the nodal agency, release the interest subsidy to the borrower.
- f) The Interest subsidy will be released on annual basis for the loan period.

While claiming the interest subsidy, the Borrower/Utility, through its lender would be required to submit the information, but not limited to, as per the Templates provided by Nodal Agency.

6.3. Conditions for availing Continuous assistance under NEF in subsequent years

- a) The benefits under the NEF scheme would continue to the Borrowers in subsequent years if they continue to meet the pre-eligibility conditions defined under Para 5.3 of these guidelines.
- b) Apart from above, the following are also required to be met to avail continuous interest subsidy:
 - i) Timely payments are made by the Borrowers to Lenders;
 - ii) The interest subsidy would be explicitly indicated by the utility while filing Annual Revenue Requirement (if applicable) to SERC / JERCs so that the benefits are passed on to the consumers.

6.4. Monitoring of Projects till completion

- a) The Borrower would be required to ensure completion of works under eligible projects in line with the terms and conditions of the proposal sanctioned by the lender.
- b) The Borrower, through its lender would be required to submit the information, but not limited to, as per the Templates provided by Nodal Agency.

7. ROLES AND RESPONSIBILITY OF STAKEHOLDERS

7.1. **Nodal Agency:** REC shall be the Nodal Agency for the operationalisation and implementation of the NEF (Interest Subsidy) scheme in the entire country. REC will act as the nodal point under this scheme and coordinate with the stakeholders such as Borrowers, Lenders, Steering Committee and MoP. The Nodal Agency would claim 0.5% of the sanctioned loan amount for borrowers as service charges, to be claimed by them as follows:

- a) 30% of the service charges (i.e. 30% of 0.5% of Loan sanctioned amount) at the time of sanction (first year) of approval of interest subsidy by Steering Committee.
- b) Balance amount would be claimed in 14 equal annual installments @5% of the eligible service charges in subsequent 14 years OR in balance equal annual installments as per the tenure of loan, if it is of lesser duration.

7.2. The Nodal Agency would be responsible for the following functions:

- a) Appointment of Independent evaluators for evaluation of pre-eligibility conditions and eligibility criteria submitted by Borrower on annual basis.
- b) Yearly appraising of proposals as per evaluation done by Independent evaluators;
- c) Verify the interest subsidy claims of the Borrowers on the basis of evaluation of independent evaluators and recommend interest subsidy on loan proposals for approval of the Steering Committee;
- d) Notification of the eligibility of rate of interest subsidy in respect of entities on the basis of achievement by the beneficiaries for reform-linked milestones prescribed in the scheme for all entities considered eligible under the scheme and seeking approval for continuation of interest subsidy;
- e) Conduct necessary works including obtaining approval of the Steering Committee for sanctioning of proposals and payment of interest subsidy to eligible Borrower/Utility;
- f) Receive the Interest Subsidy amount from the Government of India annually and keep the same in separate Bank account for disbursement from time to time to Borrower, payment of service charges and other incidental costs etc.

7.3. **Steering Committee:** The Steering Committee for the NEF (Interest Subsidy) scheme shall be headed by Secretary (Power)/ Special Secretary (Power)/ Additional Secretary (Power) and will comprise of representatives of Planning Commission, Department of Expenditure, Department of Economic Affairs, Department of Financial Services, Central Electricity Authority and Bureau of Energy Efficiency

The functions of the Steering Committee would be as under:

- a) To approve Operational Guidelines of NEF (Interest Subsidy) scheme;
- b) To approve eligible proposals for interest subsidy under this scheme.
- c) To approve release of interest subsidy amount to borrowers;
- d) To monitor the program for utilization of funds and compliance of conditionalities;
- e) Approval to incorporate changes/ modifications, if any, in the pre-eligibility conditions to overcome any difficulties and to facilitate smooth operation of this Scheme;

7.4. **Borrowers:** The Borrowers would be responsible for the following functions

- a) Submit detailed proposal through Lender to the Nodal Agency for approval of Steering Committee for availing the benefits under NEF (Interest Subsidy) scheme;
- b) Update Nodal Agency for the project progress and disbursement details;
- c) Reflecting the interest subsidy received in annual accounts to pass on the benefits to consumers.
- d) Provide requisite information to Nodal Agency as per prescribed formats

7.5. **Independent Evaluators:** Independent Evaluator would be appointed by the Nodal Agency with the approval of Steering Committee for evaluation of proposals
The Independent Evaluator under this scheme would be responsible for the following functions:

- a) Evaluate proposals for compliance of pre eligibility conditions and submit report to the Nodal agency for appraisal.
- b) Assess achievement of the borrower against each head of the baseline parameters under eligibility criteria, computation of aggregate score, interest subsidy rate and quantum.

8. **PROCESS FOR FINANCIAL TRANSACTIONS UNDER NEF SCHEME**

8.1. Financial transactions under the NEF (Interest Subsidy) Scheme shall be done through the National Electronic Funds Transfer (NEFT).

8.2. All funds received from Government of India shall be transferred to a separate Bank account (NEF Account) of the Nodal Agency.

8.3. The Nodal Agency shall use the NEF Account for transferring the funds for the following:

- a) Disbursement of Interest subsidy from time to time to the respective lenders to be passed upon the respective borrower/ utility;
- b) Service Charges @ 0.5% of the Sanctioned loan amount to its own Account, as per the mechanism prescribed in Para 7.1
- c) Payment to Independent Evaluators
- d) Other Incidental expenses.

9. COMMUNICATION PHILOSOPHY UNDER NEF SCHEME

9.1. The Nodal Agency shall constitute a NEF cell at the headquarters of REC at scope complex, Lodhi Road, in New Delhi for managing and operating the NEF Scheme. The NEF cell shall be operational from the date of operationalisation of the NEF Scheme. All forms of communication, queries, information etc. shall be done through email / formal letter in case necessary.

9.2. The Nodal Agency shall appoint a Nodal officer 'NEF Nodal Officer' who shall deal only with the designated Nodal Officer(s) of each Borrower for any communication, queries, information etc. The Nodal Officer(s) of the Borrower should be the authorized signatories of their respective Organizations;

The Nodal Agency shall develop website for the Scheme wherein information pertaining to the this scheme and contact of key officials including the Nodal Officer of the Nodal Agency shall be made available;

All information, to be submitted by the Borrower, for sanctioning of proposal, seeking grant of interest subsidy, continuous NEF assistance or project monitoring & evaluation in the form of proposal templates, shall be in the form of Hard and Soft Copy. The Hard Copy shall be submitted in Triplicate while the soft copy shall be submitted in form of a CD or through email.

9.3. E-mail may be used as mode of communication between the Nodal Agency and the Borrower for the following;

- a) Queries from the Nodal Agency on any data discrepancy or additional data requirements;
- b) Response to the queries and/or submission of additional information from Borrower to the Nodal Agency. In case the information is bulky, the same shall be required to be submitted in the form of CD;
- c) Any other Communication as desired by the Nodal Officer of the NEF Cell or required by the Nodal Officer(s) of the Borrower.

9.4. All information to be submitted by the Borrower to the lender for forwarding the same to Nodal Agency should be in prescribed format and legible, else will be liable to be rejected.

9.5. The Nodal Agency shall have the right to ask for any additional information, it may deem fit, for the purpose of appraisal/evaluation of the proposal and computation of interest subsidy.

10. POWER TO REMOVE DIFFICULTIES

If any difficulty arises in giving effect to any of the provisions of these guidelines, the Steering Committee may, by modification and amendment, take suitable action, which appears to be necessary or expedient for the purpose of removing the difficulties.

11. These guidelines are issued with the approval of Steering Committee accorded in its meeting held on 30.4.2012.



(SANJEEV KUMAR)
Director (Distribution)

To

1. Chief Secretaries of all States
2. Energy/Power Secretaries of all the State Governments
3. Chairmen of State Electricity Boards/ CMDs of State Power Utilities
4. Chairman & Managing Director, Rural Electrification Corporation, New Delhi.

Copy forwarded to:

1. Cabinet Secretariat (Shri K. L. Sharma, Director), Rashtrapati Bhavan, New Delhi.
2. Ministry of Finance, Department of Expenditure (Plan Finance Division-II), North Block, New Delhi.
3. Ministry of Finance, Department of Economic Affairs, North Block, New Delhi.
4. Ministry of Finance, Department of Financial Services, Jeevan Deep Building, New Delhi.
5. Planning Commission, Yojana Bhavan, New Delhi.
6. Chairperson, Central Electricity Authority, R.K. Puram, New Delhi.
7. Finance/Budget Section, Ministry of Power, New Delhi.
8. Controller of Accounts, Ministry of Power, New Delhi.
9. Principal Director of Audit, Economic & Services Ministries, AGCR Building, I.P. Estate, New Delhi.
10. Department of Programme Implementation, Sardar Patel Bhavan, New Delhi.

Copy to:

PS to Minister of Power/ PS to Minister of State for Power
PPS to Secretary (Power)
PSO to AS(AL)
PA to Joint Secretary (Dist)/ PS to JS&FA

**No. 24/01/2012-NEF/APDRP
Government of India
Ministry of Power
: : : : : : : :**

**Shram Shakti Bhavan, Rafi Marg,
New Delhi, Dated: 14th March, 2012**

OFFICE MEMORANDUM

Subject: National Electricity Fund (Interest Subsidy) Scheme to subsidize interest rate on loans to be disbursed by Financial Institutions (PFC, REC and other financial institutions) for projects of distribution sector.

In supersession of this Ministry OM of even number dated 8th February 2012, Sanction of the President is conveyed for setting up of National Electricity Fund (Interest Subsidy Scheme) to provide interest subsidy on loans disbursed to the State Power Utilities, Distribution Companies (DISCOMS) – both in public and private sector, to improve the infrastructure in distribution sector.

2. Under NEF scheme, interest subsidy would be provided on loans taken by private and public power utilities in distribution sector for non Rajiv Gandhi GraminVidyutikaranYojana (RGGVY) and non Restructured Accelerated Power Development and Reforms Programme (R-APDRP) projects. RGGVY, a flagship scheme of Government of India under implementation, targets provision of access of electricity in all rural areas and whereas R-APDRP is for strengthening and up-gradation of distribution sector for reducing Aggregate Technical and Commercial (AT&C) losses in urban areas.

3. The preconditions for eligibility are linked to reform measures taken by the States and the amount of interest subsidy is linked to the progress achieved in reforms linked parameters. For financial assistance from NEF (Interest Subsidy) Scheme, the States have been categorized as “Special category and focused states”, and “States other than special category and focused states”. The criteria for financial assistance under NEF scheme including categorization of States, pre-conditions for eligibility. Criteria for assigning the marks based on reforms measures, penalty and other conditions of the

scheme are given in **Annexure-I**.

4. Types of schemes for which interest subsidy can be availed under the proposed scheme are given in **Annexure-II**.

5. A Steering Committee chaired by Secretary (Power)/ Special Secretary (Power)/ Additional Secretary (Power) comprising of representatives of Planning Commission, Department of Expenditure, Department of Economic Affairs, Department of Financial Services, Central Electricity Authority and Bureau of Energy Efficiency will be constituted and it would sanction the proposals for interest subsidy eligible under the NEF scheme for the eligible projects. Steering Committee can also relax/modify any of the pre-conditions of eligibility to overcome any difficulty in operating this Scheme. The Steering Committee will also monitor the progress of utilization of funds and compliance of conditionality. The role/definition of Nodal Agency, the lenders, the independent evaluators, borrower & Steering Committee are given in **Annexure –III**.

6. Each power utility eligible for subsidy on interest would be assigned marks based on parameters as indicated in **Annexure-I**. Based on the consolidated score achieved on these parameters, the utilities would be categorized and will be eligible for subsidy in interest rates from 3% to 5% in States other than Special category and focused states and 5% to 7% in Special Category and focused states as in Para- 3 of **Annexure-I**. Any utility scoring less than 35%, would not be eligible for any interest subsidy after 31 March 2014. This would be monitored on annual basis and subsidy in Interest rate will be calculated accordingly. The baseline parameters would be verified by independent evaluators and interest subsidy on loan proposals would be approved by the Steering Committee, on the recommendations of the Nodal agency. The pre-conditions of unbundling and timely submission of annual accounts etc. in Special Category and focused States would be aligned with other States after 3 years of operationalization of the scheme. A flow chart of the scheme is enclosed at **Annexure –IV**.

7. National Electricity Fund would provide interest subsidy aggregating ₹8466 crore spread over 14 years for loan disbursement amounting to ₹25,000 crore for distribution schemes sanctioned during the 2 years viz., 2012-13 and 2013-14. The outlay of ₹8466 crore would cover payment of interest subsidy to the borrowers, service charges to the nodal agency, payments to independent evaluators and other incidental expenses.

8. Rural Electrification Corporation (REC), would be the Nodal Agency to

operationalise the scheme through which funds for interest subsidy scheme will be provided, under the guidance of Steering Committee being formed for National Electricity Fund (NEF) scheme. Rural Electrification Corporation (REC), as nodal agency for the NEF (Interest Subsidy Scheme), would be paid a service charge of 0.5% of the sanctioned loan.

9. Detailed guidelines to operationalise the scheme will be issued separately.

10. The expenditure involved on the above scheme would be debitable to the following Heads under Grant No. 75 - Ministry of Power for the year 2011-12 and corresponding Head of account for the subsequent years:-

2801	Power (Major Head)
	(Sub Major Head)
	(Minor Head)
29	National Electricity Fund
29.00.33	Subsidies

11. This issues with the concurrence of Finance Wing of the Ministry of Power vide their Dy. No 27/Fin./12 dated 13.03.2012.

A. K. Singh

(Arun Kumar Singh)

Under Secretary to the Govt. of India

To

1. Chief Secretaries of all States
2. Energy/Power Secretaries of all the State Governments
3. Chairmen of State Electricity Boards/ CMDs of State Power Utilities
4. Chairman & Managing Director, Rural Electrification Corporation, New Delhi.

Copy forwarded to:

1. Cabinet Secretariat (Shri K.L. Sharma, Director), Rashtrapati Bhavan, New Delhi.
2. Ministry of Finance, Department of Expenditure (Plan Finance Division-II), North Block, New Delhi.
3. Ministry of Finance, Department of Economic Affairs, North Block, New Delhi.
4. Planning Commission, Yojana Bhavan, New Delhi.
5. Chairperson, Central Electricity Authority, R.K. Puram, New Delhi.
6. Finance/Budget Section, Ministry of Power, New Delhi.
7. Controller of Accounts, Ministry of Power, New Delhi.
8. Principal Director of Audit, Economic & Services Ministries, AGCR Building, I.P. Estate, New Delhi.
9. Department of Programme Implementation, Sardar Patel Bhavan, New Delhi.

Copy to:

PS to Minister of Power/ PS to Minister of State for Power
 PPS to Secretary (Power)
 PSO to AS(AL)
 PS to Joint Secretary (Dist)/ PPS to JS&FA

A. K. Singh

Criteria for Financial Assistance from NEF (Interest Subsidy) Scheme

State Power Utilities, State Power Departments and Distribution Companies (DISCOMs) in both the Public and the Private Sectors in the States and Union Territories would be considered for eligibility.

Distribution Schemes as may be decided by the Steering Committee would be eligible for financing and an indicative list of categories of such schemes is given in **Annexure-II**. Ongoing sanctioned schemes of the categories covered in the list may also be considered.

To ensure that there is no duplicity in providing grant and subsidy to the same scheme, this subsidy for distribution schemes would be for towns with population of less than 30000 (10000 in case of special category States) and all rural areas. Only non R-APDRP and non RGGVY projects and schemes would be eligible for subsidy under this scheme.

The sanctions of the loans would be considered during the years 2012-13 and 2013-14 and Repayment period of 10 years. Interest Subsidy would be for a period of 14 years subject to fulfillment of conditions.

There will be two categories of States.

- (i) Special category and focused States and
- (ii) States other than special category and focused States.

Special category States are all North-east States, Sikkim, Uttarakhand, Himachal Pradesh and Jammu & Kashmir. The focused States would be States of Bihar and Jharkhand since their per capita income (as per available data) was lower than the national average per capita income and the utilities were not unbundled; states where number of unelectrified households are less than 50% of the total as per 2001 census and any other State having Power Department.

Pre-conditions for eligibility:

		The utilities in State other than special category and focused States	The utilities in special category and focused States – Power Deptts.	The utilities in special category and focused States and other than Power Deptts.
a.	Operationalization of State Electricity Regulatory Commission (SERC): Formation of SERC, issue of tariff order as per section 62 of Electricity Act, 2003 for previous year and issuance of tariff order for current year on the basis of tariff petition, if any	✓	x	✓
b.	Formulation of Business Plan Submission of detailed business plan for financial turnaround and/ or sustaining profitability for a time period of 5 years defining financial milestones with identifiable means, approval of Business Plan by State Government in case State Government support is envisaged in the business plan and approval of investments in Business Plan by SERC/JERC.	✓	✓	✓
c.	Re-organisation of the SEBs as per Section 131 of Electricity Act, 2003. Preparation of opening Balance Sheet for the newly formed utilities, notification of transfer scheme, formation of companies for Generation, Transmission & Distribution functions and commencement of operations by the newly formed utilities.	✓	x	x
d.	Subsidy Release of subsidy by the State Govt. as per Section 65 of Electricity Act, 2003	✓	✓	✓
e.	Annual Accounts Submission of Audited Annual Accounts	✓	x	✓
f.	Timely filing of Tariff petition	✓	x	✓

* as recommended by (CERC)

Note:

a) For release of subsidy by the State Govt. as per Section 65 of Electricity Act, 2003 the written commitment of the State Govt. will be taken for ascertaining the eligibility. In case the subsidy for the current year in which the utility seeks financial assistance under NEF is not released by the State Govt. as per the commitment, the subsidy in interest rates under the scheme would be withdrawn immediately

b) The Audited Annual Accounts should be submitted by the utilities for the previous financial year of preceding F.Y. of the current F.Y. if the utility seeks financial assistance before 30th September of current financial year. In case financial assistance under NEF is sought on or after 1st October of the current financial year, the audited Annual Accounts for the preceding financial year should be submitted.

2. Criteria for assigning the marks based on reforms measures:

		The utilities in State other than special category and focused States	The utilities in special category and focused States – Power Deptts.	The utilities in special category and focused States and other than Power Deptts.
		(Marks)		
(a)	Reduction in AT&C Losses: (The scoring on AT&C losses will be done proportionately, i.e. The score will be reduced if achievement is less than the given percentage for reduction in AT&C losses. No marks will be allocated if reduction in AT&C losses is less than 6%) On reaching AT&C losses of 8%, the entity would be expected to maintain the same to achieve maximum marks.	<ul style="list-style-type: none"> Reduction by 10% over P.Y. (50 marks) Reduction by 8% over P.Y. (40 marks) Reduction by 6% over P.Y. (30 marks) 	<ul style="list-style-type: none"> Reduction by 10% over P.Y. (75 marks) Reduction by 8% over P.Y. (60 marks) Reduction by 6% over P.Y. (45 marks) 	<ul style="list-style-type: none"> Reduction by 10% over P.Y. (75 marks) Reduction by 8% over P.Y. (60 marks) Reduction by 6% over P.Y. (45 marks)

(b)	Reduction in gap (Rs./kwh) (ACS-Avg. Revenue on subsidy received basis) (The score will be reduced proportionately if achievement is less than the given percentage for reduction in gap. No marks will be allocated if reduction in gap is less than 15% over P.Y.)	<ul style="list-style-type: none"> • Avg.Rev.> ACS (40 Marks) • Reduction in gap by 25% over P.Y (30 marks) • Reduction in gap by 20% over P.Y (20 marks) • Reduction in gap by 15% over P.Y (10 marks) 	<ul style="list-style-type: none"> • Avg.Rev.> ACS (25 Marks) • Reduction in gap by 25% over P.Y (20 marks) • Reduction in gap by 20% over P.Y (15 marks) • Reduction in gap by 15% over P.Y (10 marks) 	<ul style="list-style-type: none"> • Avg.Rev.> ACS (25 Marks) • Reduction in gap by 25% over P.Y (20 marks) • Reduction in gap by 20% over P.Y (15 marks) • Reduction in gap by 15% over P.Y (10 marks)
(c)	Return on equity <ul style="list-style-type: none"> • The allowance of Return on equity by SERC/JERC in terms of National Tariff Policy 	5 Marks	Provision for penalty	Provisions for penalty
(d)	Multi year tariff <ul style="list-style-type: none"> • Issue of notification on multi year tariff regulations by SERC/JERC 	5 Marks	Provision for Penalty	Provisions for penalty

Note:

(i) For evaluation or reduction in AT&C losses as at 2 (a); the modalities would be decided by the Steering Committee.

(ii) The evaluation of reduction in gap as at 2(b) will take place on the basis of Audited Annual Accounts for the two financial years preceding to the F.Y. in which the evaluation takes place except for Power Departments where evaluation will take place on the basis of Resource Plans of the Planning Commission.

(iii) The evaluation of Return on Equity as at 2 (c) and multi year tariff as at 2 (d) will take place on the basis of information to be submitted by the utilities/Power Departments duly certified in the manner as may be required along with certified copies of the relevant order of SERC.

3. (a) Categorization of utilities in States other than special category and focused States Based on the consolidated score achieved on parameters as at 2 above, the utilities will be categorized and eligible for subsidy in interest rate as given below:

Category	Score (out of 100)	Subsidy in Interest rate (%)
Category A	Greater than or equal to 75	5
Category B	Less than 75 but more than or equal to 50	4
Category C	Less than 50 but more than or equal to 35	3

(b) Categorization of utilities/Power Departments in Special Category and Focused States:

Based upon the consolidated score achieved on above parameters, the entities will be categorized and eligible for subsidy in interest rate as given below:

(Upto 31st March, 2014)

Category	Score (out of 100)	Subsidy in Interest rate (%)
Category A	Greater than or equal to 60	7
Category B	Less than 60 but more than or equal to 40	6
Category C	Less than 40 but more than or equal to 30	5

From 1st April, 2014 onwards:

Category	Score (out of 100)	Subsidy in Interest rate (%)
Category A	Greater than or equal to 75	7
Category B	Less than 75 but more than or equal to 50	6
Category C	Less than 50 but more than or equal to 35	5

4. Penalty

The criteria at 2 (c) and 2 (d) should be complied by 31st March 2014 by utilities in special category and focused States. In case these parameters are not achieved by 31st March, 2014, the following penalties would be levied till the time the parameters are achieved.

Parameters	Penalty
Issue of notification on multi-year tariff by SERC/JERC	Withdrawal of interest subsidy of 0.25%
The allowance of return on equity by SERC/JERC in terms of the National Tariff Policy	Withdrawal of interest subsidy of 0.25%
The above penalty of 0.25% is a reduction from the applicable subsidy and not 0.25% of the applicable subsidy.	

5. Conditions

(a) If the pre-conditions as per Para 1 above are not complied with, the utility/Power Department will not be eligible under NEF.

(b) The movements will be monitored on annual basis and subsidy in interest rate will be calculated accordingly. Further, the subsidy in interest rate will be applicable only if;

- Timely payments are made by the utilities/power departments
- The audited annual accounts are submitted by the utilities (except for Power Department) for the F.Y. preceding to the current F.Y. in which the evaluation takes place.
- Subsidy is released by the State Govt. as per Section 65 of Electricity Act, 2003 for the year preceding to the current F.Y. in which evaluation takes place.
- The interest subsidy would be explicitly indicated by the utility while filing ARR to SERCs so that the benefits are passed on to the consumers.
- The utilities in special category and focused States reorganise the SEB's as per Section 131 of Electricity Act within 3 years of the operation of the scheme.

6. Any interpretation, modification of the eligibility conditions may be done with the approval of Steering Committee.

Details of Distribution Schemes eligible to be financed through NEF (Interest Subsidy) scheme for distribution sector.

1. The distribution schemes of voltage level of 33 KV/66 KV may include the following
 - Strengthening of the distribution network including substations, transformers/transformer centers.
 - Re-conductoring of lines
 - Load bifurcation, load balancing, SCADA, feeder separation etc.
 - GIS mapping, remote metering of distribution transformers and feeders, automatic data logging for all distribution transformers and feeders, consumer industry.
 - Installation of meters-pre paid/automated/downloadable
 - IT applications related to distribution management.
 - HVDS schemes for increase in HT/LT ratio
 - Power Line Communication / Radio communication schemes etc. which help in distribution management. The communication schemes etc. which help in distribution management. The communication system will help in data transfer from meters to central server for energy flow and accounting.
 - Establishment of Citizen Service Centres which aim at consumer grievance redressal, billing issues and decrease response time.
 - Feeder segregation in non-r-APDRP & non-RGGVY small areas & towns and HVDS projects / **Separator for agriculture & domestic feeders.**
2. Prospective input based franchisees and other franchisees & DDG Scheme, selected through competitive based bidding would be encouraged under the scheme. These franchisees would be expected to undertake various technical and commercial improvements like maintenance, prevention of pilferage and theft, revenue collection, energy accounting and auditing etc. Further, the franchisees would be partners in reduction of AT&C losses in the system.
3. Scope of work for these towns should be similar to the works taken up in R-APDRP. Energy accounting and auditing system for these projects covered under this scheme should be in line with the IT road map of the state utility and should integrate seamlessly with the IT system set up under R-APDRP. IT system proposed under this scheme should be concurred by the IT Consultant / IT Division of the State utility.
4. Distribution strengthening schemes for towns not covered under R-APDRP i.e towns and cities having AT&C loss less than 15% can be covered under this scheme.
5. Distribution Reforms Committee (DRC) at the State level under the chairmanship of the Chief Secretary / Principal Secretary / Secretary (Power / Energy) should recommend the project proposals.
6. Any other distribution scheme with the approval of the Steering Committee.

ROLE/DEFINITION OF NODAL AGENCY, THE LENDERS, THE INDEPENDENT EVALUATORS, BORROWER & STEERING COMMITTEE.

(a) Nodal agency:

- Nodal agency shall be required to appraise the eligibility of the borrower based on its details sent by the lender.
- Nodal agency would verify the claims based on the recommendations of independent evaluator. Based on the consolidated score, the interest subsidy would be recommended by the Nodal Agency to the Steering Committee for approval.
- Nodal agency shall notify periodically the eligibility of rate of interest subsidy in respect of various entities on the basis of achievement by the borrower of reform-linked milestones prescribed in the scheme.
- Nodal agency shall carry out necessary work including obtaining the approval of the Steering Committee for payment of interest subsidy to each of the Lenders for passing on to the borrowers.
- Nodal agency shall receive the Interest Subsidy amount from the Government of India annually and keep the same in separate Bank account for disbursement to the eligible borrowers from time to time & payment of service charges, independent evaluators and other incidental costs etc.

(b) Lenders:

- Financial Institutions like REC, PFC and Banks shall send details of the borrowers to the nodal agency for ascertaining the eligibility under the scheme.
- Once eligibility of the borrower is intimated by nodal agency under the scheme, the Lenders shall send the interest subsidy claim to nodal agency for processing the claims.
- Lenders shall, on receipt of interest subsidy from the nodal agency, release the interest subsidy to the borrower

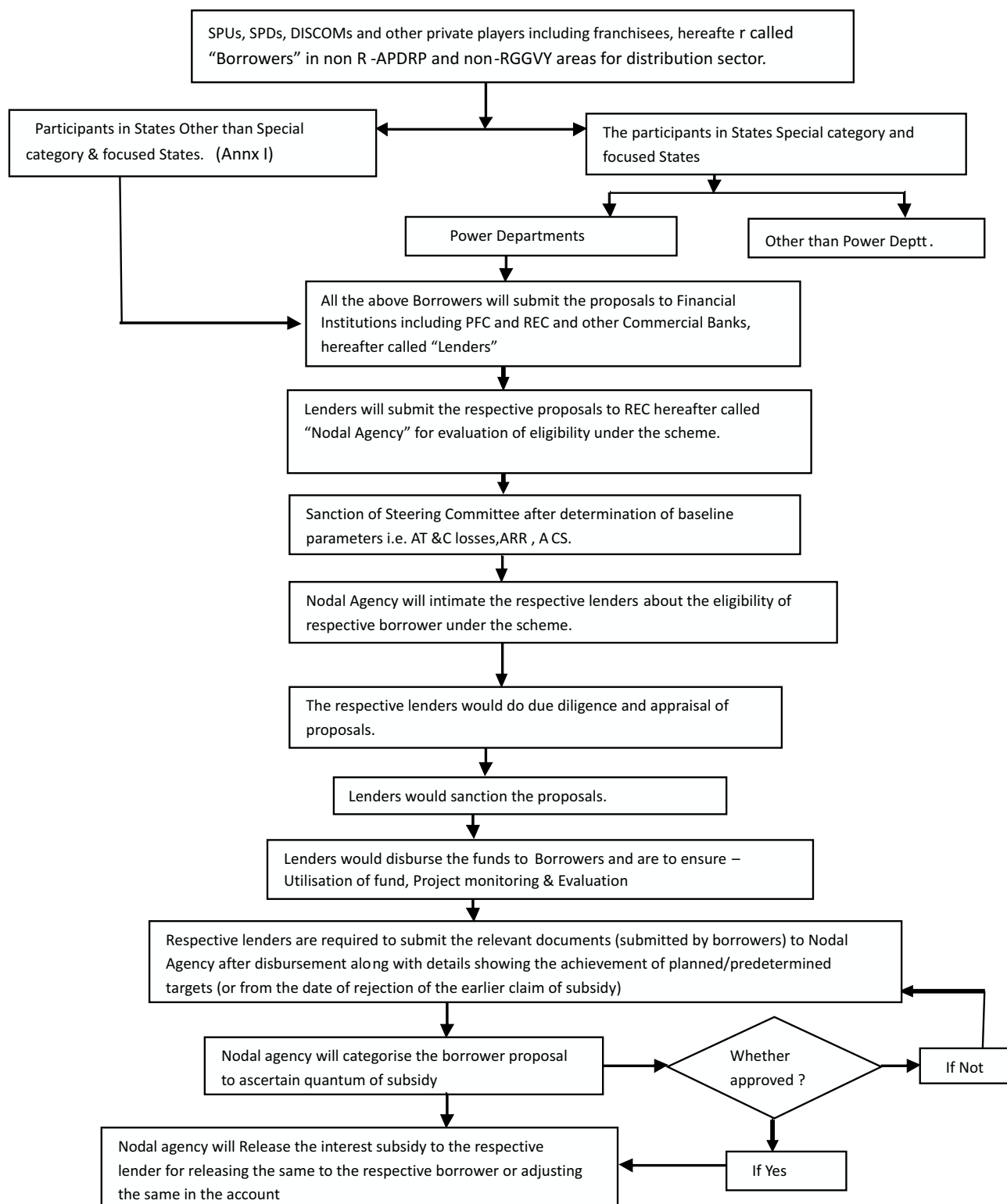
(c) Independent Evaluator:

- Shall be appointed by the Nodal Agency with the approval of Steering Committee.
- Shall determine the baseline parameters and assess the achievements of individual schemes, report on the deficiencies and gaps and suggest measures to rectify them.
- Shall evaluate achievement of the borrower against each head of the eligibility criteria as per requirements of the Interest Subsidy Scheme/Nodal Agency.

(d) “Borrower” refers to State Power Utilities, State Power Departments and distribution Companies (DISCOMs) – both the Public and Private DISCOMs and franchises. Borrower would be the beneficiary of the subsidy subject to prescribed conditions.

“Steering Committee” for the scheme shall be headed by Secretary (Power)/ Special Secretary (Power)/ Additional Secretary (Power) and will comprise of representatives of Planning Commission, Department of Expenditure, Department of Economic Affairs, Department of Financial Services, Central Electricity Authority and Bureau of Energy Efficiency. The Steering Committee would sanction the proposals eligible under the NEF scheme as given in the indicative list in **Annexure-II**. The pre-conditions of eligibility can be changed, to overcome any difficulty in operating this Scheme, with the permission/approval of Steering Committee.

(e) The said Committee will also monitor the program of utilization of funds and compliance of conditionality.

FLOW CHART : NEF (INTEREST SUBSIDY) SCHEME

A. K. Singh

**No. 24/01/2012-NEF/APDRP
Government of India
Ministry of Power

**Shram Shakti Bhawan, Rafi Marg,
New Delhi, Dated: 13th February, 2012**

OFFICE MEMORANDUM

Subject: Constitution of Steering Committee for National Electricity Fund (Interest Subsidy Scheme) –reg.

Cabinet Committee on Economics Affairs (CCEA) has approved the proposal of setting up of National Electricity Fund (NEF) (Interest Subsidy Scheme) to provide interest subsidy on loans disbursed to the State Power Utilities, Distribution Companies (DISCOMS)-both in public and private sector for the loans taken from Private & Public Financial Institutions, to improve the infrastructure in distribution sector in its meeting held on 13.12.2011.

2. A Steering Committee for National Electricity Fund (NEF) is being constituted comprising of the following members:

- I. Secretary(P)/Spl. Secretary/Addl. Secretary, Ministry of Power- Chairman
- II. Chairperson, Central Electricity Authority
- III. Principal Adviser (Energy,) Planning Commission
- IV. Joint Secretary, Ministry of Finance (Department of Expenditure)
- V. Joint Secretary, Ministry of Finance (Department of Economic Affairs)
- VI. Joint Secretary, Ministry of Finance (Department of Financial Services)
- VII. CMD , Rural Electrification Corporation- Member Secretary
- VIII. Secretary(Energy), Govt. of Uttar Pradesh.
- IX. Secretary(Energy), Govt. of Maharashtra.
- X. Principal Secretary (Energy), Govt. of Andhra Pradesh.
- XI. Principal Secretary (Energy), Govt. of West Bengal.
- XII. JS&FA, Ministry of Power
- XIII. Joint Secretary(Distribution), Ministry of Power
- XIV. Director (Distribution), Ministry of Power

3. The Steering Committee Will:

- a. Finalize guidelines of operating the scheme.
- b. Sanction the proposals eligible under the NEF scheme as given in the indicative list in **Annexure-I**.
- c. Consider modification of the pre-conditions of eligibility to overcome any difficulty in operating this Scheme.
- d. Monitor the progress of Utilization of funds.
- e. Also take all other necessary decisions to implement the scheme.

4. Further, Rural Electrification Corporation (REC) will be the Nodal Agency to operationalise the scheme under the guidance of Steering Committee being formed for Nation Electricity Fund (NEF) scheme. REC will provide necessary secretarial assistance such as manpower, material and other logistic support to the Committee for smooth implementation of the programme.

5. Members of the Committee will draw TA& DA from their own respective offices.

6. This issues with the approval of Minister of Power


(G. Swan Za Lian)
Under Secretary to Government of India
Tele No. 23705957

To,

All members of the Steering Committee

Copy to:

PS to Minister of Power

PS to Minister of State for Power

PS to Secretary (Power)

PS to Joint Secretary (Distribution)/PS to JS & FA, Ministry of Power

Director (Distribution)/ DGM (APDRP), Ministry of Power

Details of Distribution Schemes eligible to be financed through NEF (Interest Subsidy) scheme for distribution sector.

1. The distribution schemes of voltage level of 33 KV/66 KV may include the following
 - Strengthening of the distribution network including substations, transformers/transformer centers.
 - Re-conductoring of lines
 - Load bifurcation, load balancing, SCADA, feeder separation etc.
 - GIS mapping, remote metering of distribution transformers and feeders, automatic data logging for all distribution transformers and feeders, consumer industry.
 - Installation of meters-pre paid/automated/downloadable
 - IT applications related to distribution management.
 - HVDS schemes for increase in HT/LT ratio
 - Power Line Communication / Radio communication schemes etc. which help in distribution management. The communication schemes etc. which help in distribution management. The communication system will help in data transfer from meters to central server for energy flow and accounting.
 - Establishment of Citizen Service Centres which aim at consumer grievance redressal, billing issues and decrease response time.
 - Feeder segregation in non-r-APDRP & non-RGGVY small areas & towns and HVDS projects / **Separator for agriculture & domestic feeders.**
2. Prospective input based franchisees and other franchisees & DDG Scheme, selected through competitive based bidding would be encouraged under the scheme. These franchisees would be expected to undertake various technical and commercial improvements like maintenance, prevention of pilferage and theft, revenue collection, energy accounting and auditing etc. Further, the franchisees would be partners in reduction of AT&C losses in the system.
3. Scope of work for these towns should be similar to the works taken up in R-APDRP. Energy accounting and auditing system for these projects covered under this scheme should be in line with the IT road map of the state utility and should integrate seamlessly with the IT system set up under R-APDRP. IT system proposed under this scheme should be concurred by the IT Consultant / IT Division of the State utility.
4. Distribution strengthening schemes for towns not covered under R-APDRP i.e towns and cities having AT&C loss less than 15% can be covered under this scheme.
5. Distribution Reforms Committee (DRC) at the State level under the chairmanship of the Chief Secretary / Principal Secretary / Secretary (Power / Energy) should recommend the project proposals.
6. Any other distribution scheme with the approval of the Steering Committee.

ILLUSTRATIVE LIST OF ELIGIBLE PROJECTS

The illustrative list of the eligible projects, to be covered under the NEF (Interest Subsidy) scheme, for distribution sector infrastructure may include the following:

- i) **Loss reduction measures** that shall focus on reducing the technical and commercial losses in the distribution network:
 - **Strengthening of energy accounting system and audit** through accurate estimations of distribution losses up to distribution levels. This may include GIS mapping of distribution assets and consumers, remote metering of distribution transformers and feeders and automatic data logging from all such points. Energy accounting and auditing system for these projects covered under this scheme should be in line with the IT road map of the state utility and would integrate seamlessly with the IT system set up under R-APDRP. IT system proposed under this scheme would be concurred by the IT Consultant / IT Division of the Utility;
 - **Strengthening revenue collections** through installation of prepaid/post paid meters for business units/consumer categories.
 - **Metering** of all consumer categories through electronic metering.
 - **Feeder segregation/separation.**
 - **High voltage distribution system (HVDS).**
- ii) **System augmentation and strengthening** aimed at enhancing the overall capacity of the distribution system to meet future electricity demands;
 - **Strengthening of distribution network** including new substations, Augmentation ,installation/ augmentation of Distribution transformers, laying of HT & LT network etc;
 - **Re-conductoring, replacement and upgradation of old feeders**
 - **Undertaking load bifurcation** for overloaded feeders/Distribution transformers;
 - **Other Distribution sector infrastructure works;**
- iii) **Enhancing operational efficiency**
 - **Implementation of Supervisory Control and Data Acquisition (SCADA)** on grid substations.
 - **Introducing IT applications** specific to distribution management, similar to the ongoing RAPDRP Part-A, in non RAPDRP areas;
 - **Introducing Distribution Network Management (DNM) applications** for facilitating system operations;
- iv) **Customer relationship management/grievance redressal**
 - **Establishment of Citizen Service Centers** related to compliant registration, service request registration and tracking status of the same;
 - **Establishing centralized IVRS based call centres** for registering no-supply complaints, service requests, facilitating status tracking etc.
