

**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

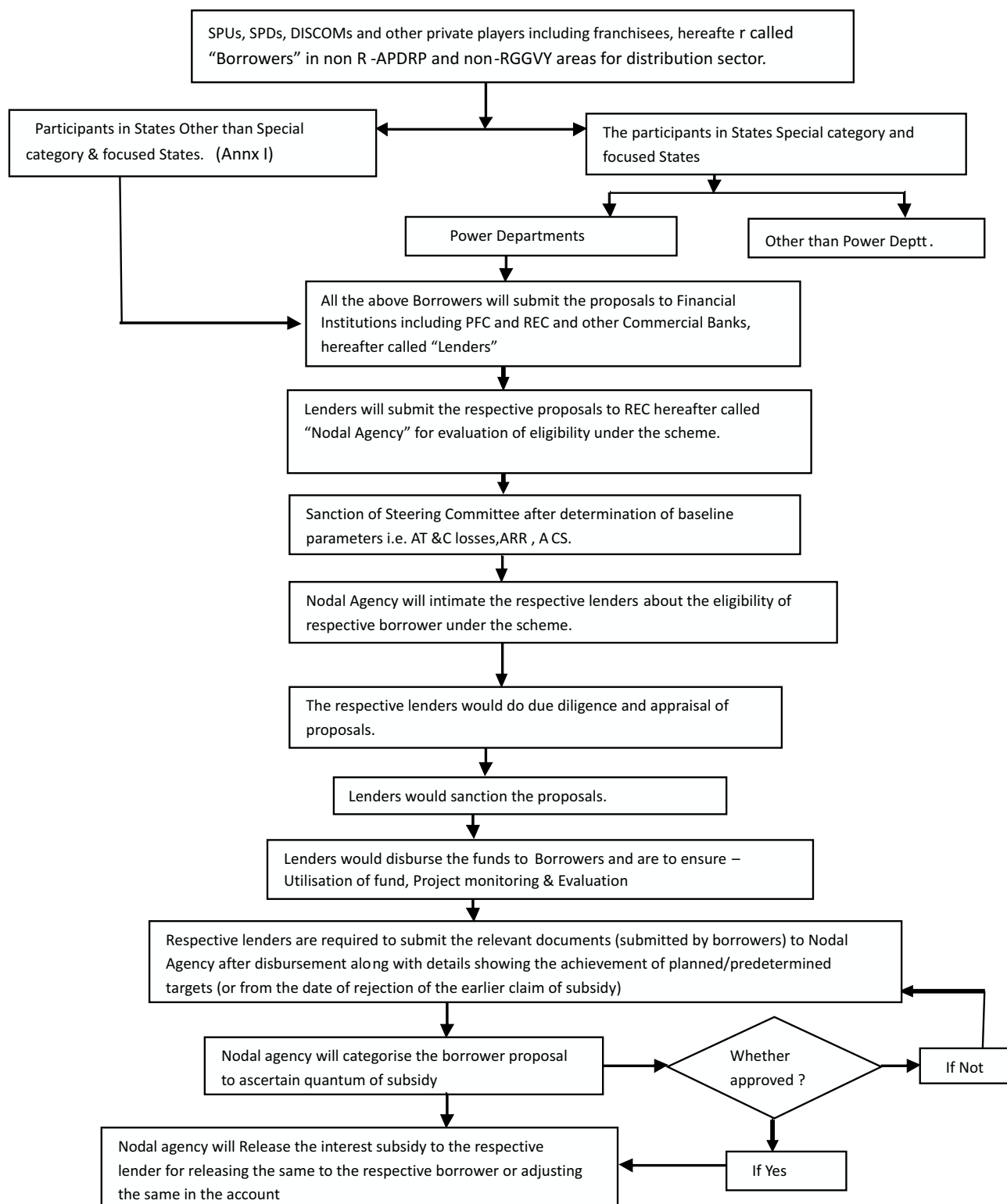
(c) Independent Evaluator:

- 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