

Comments and Suggestions on Draft Electricity Distribution (Accounting aspects of Specified Items & Additional Disclosures) Rules, 2023.

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In accordance with Section 176 of the Electricity Act, 2003 (36 of 2003) Ministry of Power (MoP) has published Draft Electricity Distribution (Accounting aspects of Specified Items & Additional Disclosures) Rules, 2023. We welcome MoP's initiative to delineate these guidelines to improve the depth and width of accounting and performance disclosures pertaining to discoms. Our comments and suggestions focus on these aspects to further bolster the transparency of the discom financial accounts.

1. Improved Regulatory Deferral Account Balance disclosure in line reporting by ERCs

This comment is with reference to Chapter II – Accounting aspects of Specified Items, Point 4. Regulatory Deferral Account Balance.

In order to improve the granularity of reporting Regulatory Deferral Account Balance, we recommend that the format in Table 1 be included as part of the disclosure. This format is similar to the reporting formats used by Commissions in Delhi, Maharashtra and Rajasthan.

Table 1: Format for reporting regulatory deferral account

Year		FY21	FY22	FY23
Opening Balance of Regulatory Deferral Account	Rs. Cr			
Aggregate Revenue Requirement of DISCOM	Rs. Cr			
Revenue from retail tariffs, charges, regulatory asset charges, non-tariff income etc.	Rs. Cr			
Revenue gap (+)/ Surplus (-) gap for the year	Rs. Cr			
Carrying cost (%)	%			
Carrying cost	Rs. Cr			
Closing balance of the Regulatory deferral account	Rs. Cr			

In accordance with the Indian Accounting Standard 114, the rules must clearly state that the regulatory deferral account balance should only include amounts that are approved by the State Commission for regulatory deferral and shall not include amounts that are disputed. Amounts that are not approved or are disputed should be reported separately in the disclosure. For example, in Delhi the three DISCOMs (BRPL, BYPL and TPDDL) reported about Rs. 23,140 crores as regulatory deferral account balance for FY20. However, the regulator had only approved Rs. 5,188 crores for recovery from future tariffs. Such discrepancies in reporting should be avoided or cleared with the additional disclosures.

2. Increase in receivables provision burden for SEs as a result of these rules should be complemented by takeover of consequent losses by respective State Governments.

This comment is with reference to Chapter II – Accounting aspects of Specified Items, Point 5. Provisioning of Trade Receivables:

While we laud the stipulation of standardized provisioning based on age-wise bucketing of trade receivables, we do recognise the fact that this could potentially lead to a large jump in the receivables provisioning for many discoms. This could lead to worsening of their reported profitability numbers. Also, multiple discoms' auditors have opined on the material uncertainty of their 'going concern' status due to heavy accumulated losses. While, it may not form a part of these rules, it is imperative that such losses be taken over by the respective State Government similar to the UDAY scheme. State governments should be required to take over accumulated losses in letter and spirit. Several state governments have agreed to take over losses of DISCOMs from FY23 in a phase-wise manner under the Ministry of Finance conditional scheme to relax borrowing limits. For example, please see Annex A. Without such takeover of losses, Auditors will have to unambiguously state that particular DISCOM is not a going concern and severe legal implications of this would follow.

3. Requirement of special guidance for statutory auditors in light of critical changes to accounting policies for SEs.

It is recommended that there be special guidance for statutory auditors of electricity distribution companies as part of these Rules, there are accounting guideline changes to critical items such as Regulatory Deferral Account Balances and standard provisioning for receivables based on age wise buckets.

4. Stipulation of independent third party verification of data submitted under ADS

This comment is with reference to Chapter III- Preparation of Additional Disclosure Statements (ADS), Point 7. Statement of Compliance

We recommend that there should be an independent verification of the ADS submission and quality of such data by technically competent service providers/consultants (either government agencies, CAG or private consultants in the sector) as part of the annual report for SEs.

5. Stipulation of reporting of ADS in true-up proceedings

To provide necessary details on DISCOM performance, the rules should mandate that the additional disclosures should be part of true-up or mid-term review petitions by the SEs submitted to State Commissions.

6. Additional format for reporting borrowings based on end use and tenor.

This comment is with reference to Schedule A: Additional Disclosure Statements, ADS 1: Supplementary Disclosures to Financial Statements, Point 10. Details of Borrowings

DISCOM borrowings take place to ensure necessary investments to improve supply and service quality and performance. However, significant borrowings are to meet working capital requirements of utilities with poor finances. In fact, as per the State Government MoUs for the UDAY scheme, more than 90% of the debt take-over were for borrowings reported to meet working capital needs.

Additionally, several loans were also undertaken as general purpose loans. These loans can also be complex to track in recently unbundled or vertically integrated utilities (such as Tamil Nadu, Punjab and Kerala) as the loans to the distribution function may have been apportioned.

In order to understand DISCOM performance it is crucial to track not just the extent of the borrowings but also the tenor and the purpose as detailed in format suggested in Table 2.

Table 2: Break-up of borrowings

Nature of financing	Long term (In Rs.)	Short term (In Rs.)
Specific to identified capex		
Non -Capex		
General Purpose		
Working capital		

7. Stipulation of detailed disclosure of litigation events in the SE basis order of magnitude.

This comment is with reference to Schedule A: Additional Disclosure Statements, ADS 5: Performance Summary of Specified Entity

Under the contingent liabilities section in a discom's audited annual statements, there are some disclosures currently being made by discoms in varying depths regarding major disputed liabilities not acknowledged as debts. Most of such contingent liabilities will have an ongoing legal process underway. In order to provide more nuanced disclosure on specifically the litigations being dealt with at each discom will bring a lot more clarity on the status of such litigations and potential financial impact if any. We recommend that any litigation (fresh or ongoing) which account for ~ the top 60% (listed in decreasing value of potential liability) of outstanding disputed financial liabilities should be disclosed in a detailed manner by each discom as part of the ADS under these Rules.

8. Need for detailed notes accompanying the formats to ensure standardisation and reduce confusion

As DISCOMs have varying reporting practices, it is crucial that there are detailed notes with guidance on what is expected to be reported in the formats. Without this, there could be several discrepancies in reporting. For example:

- In Table 1, it is not clear if the field "Fixed Charges/ Meter Rents etc." is in reference to fixed charges which along with energy charges is part of ERC approved tariffs or whether it is reference to misc. In charges which are fixed in nature.
- In Table 2, would Time of Day rebates have to be reported as "Rebate to Consumers (if any, other than Cash Discount)" or would they be subsumed under tariff revenue. If penalties are greater than incentives will the number be reported as a negative value for each category?
- In Table 3, the difference between notified tariff and ABR should be clarified. Else it is likely that the DISCOMs report the same rates in both columns.
- In Table 8, what methodology should DISCOMs follow to report FAC/FPPPA receivables if fuel surcharge is recovered with the rest of revenue via consumer bills?
- In Table 9, it is not clear if the revenue billed and revenue received for each category is inclusive or exclusive of subsidies.

- In Table 4, ACS is based on gross energy sold but in ADS 3 its is on energy input basis. The difference is methodology is not clear.

Our comments are only additive in nature to the recommendations in these Draft Rules which are very welcome in the context of better quality accounting disclosures. We hope that these Rules bring out heightened clarity on the true financial position and performance of Discoms which is the first step towards rational resolution of the financial problems faced by them. We are submitting these initial comments due to the short time given for comments. We will provide more detailed comments in about two weeks and request the Ministry to kindly consider the same while finalizing the rules.

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