

No. 29/9/2010-R&R (Vol-II)
Government of India
Ministry of Power

Shram Shakti Bhawan, Rafi Marg,
New Delhi, 10th January, 2014

To

1. Chairperson, Central Electricity Authority, New Delhi.
2. Principal Secretary/Secretary (Energy) of State Governments/UTs.
3. Secretary, CERC/FOR, New Delhi.
4. Secretary, State Electricity Regulatory Commissions.
5. Chairmen, State Power Utilities/SEBs.
6. Chairmen, CPSUs under Ministry of Power.
7. Member Secretary, Regional Power Committees
8. CEO, POSOCO, New Delhi.
9. ED, NLDC, New Delhi
10. MD, Power Exchanges (PXIL, IEX)

Subject: Scheme for Operationalization of Power System Development Fund - regarding.

Sir,

I am directed to say that the Cabinet has approved the proposal of Ministry of Power on 2nd January, 2014 for Operationalization of the Power System Development Fund (PSDF) and the scheme formulated for utilization of funds deposited therein based on the procedure laid down in the Central Electricity Regulatory Commission (CERC) Power System Development Fund Regulations, 2010.

2. The Power System Development Fund will be utilized for the following purposes:
 - i) Creating necessary transmission systems of strategic importance based on operational feedback by Load Despatch Centers for relieving congestion in Inter-State Transmission Systems (ISTS) and intra-state system which are incidental to the ISTS.
 - ii) Installation of shunt capacitors, series compensators and other reactive energy generators for improvement of voltage profile in the Grid.
 - iii) Installation of standard and special protection schemes, pilot and demonstrative projects, and for setting right the discrepancies identified in the protection audits on regional basis.
 - iv) Renovation and Modernization (R&M) of transmission and distribution systems for relieving congestion.
 - v) Any other scheme/project in furtherance of the above objectives, such as, conducting technical studies and capacity building, etc.
3. The National Load Despatch Centre (NLDC) will be the Nodal Agency for implementation of the Scheme.

4. A copy of the Scheme for Operationalization of PSDF is enclosed for information and necessary action. The same is also available on the website of Ministry of Power at www.powermin.nic.in.

5. Action taken report in this regard may please be furnished immediately.

Encl: As above

Yours faithfully,



(Pranay Kumar)
Director 14
Tel: 2371 5250

Copy to:

1. Secretary, Department of Economic Affairs, Ministry of Finance, North Block, New Delhi.
2. Secretary, Department of Expenditure, Ministry of Finance, North Block, New Delhi.
3. Secretary, Department of Legal Affairs, Ministry of Law & Justice, Shastri Bhawan, New Delhi.
4. Secretary, Planning Commission, Yojana Bhawan, New Delhi.
5. Secretary, Ministry of New and Renewable Energy, CGO Complex, Lodhi Road, New Delhi.

Copy for information to: PPS to Secretary (Power)/PPS to AS(DC)/All Joint Secretaries/Economic Adviser/Directors/Dy. Secretaries of Ministry of Power.

Copy to: Incharge, NIC, Ministry of Power for posting the enclosed document on the website of Ministry of Power under 'Whats New' with heading 'Scheme on Operationalization of Power System Development Fund'.


(Pranay Kumar)
Director

SCHEME FOR OPERATIONALIZATION OF POWER SYSTEM DEVELOPMENT FUND

1.0 OBJECTIVE

Section 79(1) (c) of the Electricity Act enables CERC to, inter-alia, regulate interstate transmission of electricity. CERC regulates interstate transmission by specifying regulations for operation of the grid as also by way of stipulating various regulatory charges, as enumerated below:

The interstate transmission of electricity involves regulation of the grid in accordance with the specifications contained in the Grid Code. The CERC has formulated a mechanism to ensure that grid discipline is maintained. A commercial mechanism has been evolved by which those who breach the discipline are required to pay what is referred to as "Unscheduled Interchange charges". This is payable when the users of the grid who should adhere to scheduled dispatch and drawal of electricity do not conform to their commitments.

Regulation of interstate transmission also involves management of congestion in the system. Congestion means a situation where the demand for transmission capacity exceeds the Available Transmission Capability (ATC). In order to relieve congestion in interstate transmission system in real time, a charge called congestion charge is also applied as a commercial measure.

Congestion also affects operation of the power exchanges. This is regulated by CERC by way of a framework of market splitting which is a mechanism adopted by the power exchanges where the market is split because of the congestion in transmission. Thus, the congestion amounts arise from the difference in market prices of different regions as a consequence of market splitting.

Maintenance of power voltages is also an important element of regulating interstate transmission. In order to ensure maintenance of voltage stability within the specified range (97-103% of the nominal voltage), commercial measures by way of reactive

energy charge is levied on utilities as per the Indian Electricity Grid Code (IEGC) and the charges are payable / receivable by the regional entities depending on their reactive power drawal/return impacting the voltage at the metering points.

The above four charges, namely – (a) Unscheduled Interchange Charge, (b) Congestion Charge, (c) Market Splitting Congestion Amount, and (d) Reactive Compensation for failure to maintain voltage are settled between those who pay and those who need to receive. After final settlement takes place, there are surplus amounts which are credited into a special fund called the Power System Development Fund (PSDF).

The objective of this Scheme is operationalization of the Power System Development Fund (PSDF) and utilization of funds deposited therein as approved by the Government and as per the procedure laid down in the CERC (Power System Development Fund) Regulations, 2010, as amended from time to time, and also in consonance with the laid down Accounting and Audit procedures.

2.0 NODAL AGENCY

National Load Despatch Centre (NLDC) shall be the nodal agency for implementation of the Scheme.

3.0 ELIGIBLE PROJECTS

3.1 The following categories of projects will be eligible for assistance from PSDF.

- a) Transmission systems of strategic importance based on operational feedback by Load Despatch Centers for relieving congestion in inter-state transmission system (ISTS) and intra-state system which are incidental to the ISTS.
- b) Installation of shunt capacitors, series compensators and other reactive energy generators for improvement voltage profile in the Grid.

- c) Installation of special protection schemes, pilot and demonstrative projects, standard protection schemes and for setting right the discrepancies identified in the protection audits on regional basis.
- d) Renovation and Modernization (R&M) of transmission and distribution system for relieving congestion.
- e) Any other scheme/project in furtherance of the above objectives such as technical studies and capacity building.

3.2 Projects proposed by distribution utilities in the above areas that have a bearing on grid safety and security, provided these are not covered under any other scheme of the Government of India, such as RAPDRP/RGGVY/NEF, etc.

3.3 Private sector projects would not be eligible for assistance from the Fund.

4.0 APPRAISAL COMMITTEE

There will be an Appraisal Committee as per the composition given at **Annexure-I** for the purpose, inter alia, for scrutiny (techno-economic appraisal) and prioritisation of the various project proposals for funding from PSDF.

5.0 MONITORING COMMITTEE

There will also be an Inter-Ministerial Monitoring Committee under the Chairmanship of Secretary (Power), Government of India. The composition of the Monitoring Committee is given at **Annexure-II**. The Committee will consider such projects (or their revised costs) for sanction based on the Appraisal Report and Regulatory Approval of the Appropriate Commission. Based on the sanctions by the Monitoring Committee, the funds will be released to the project entities from the Budget of Ministry of Power. This Committee will also monitor the implementation of various projects sanctioned by it. Release of funds from PSDF will be regulated as per the extant instructions of the Ministry of Finance in this regard.

5.0 PROCEDURE FOR APPLICATION, SCREENING, APPRAISAL, MONITORING, SANCTION ETC.

5.1 The, Regional Power Committees, Generating companies, Distribution licensees, Transmission licensees, Load Despatch Centres, Power Exchanges as the case may be, shall furnish DPRs to the NLDC who would pose them for technical scrutiny by the Appraisal Committee.

5.2 The Appraisal Committee will undertake scrutiny (techno-economic appraisal) of the projects with the assistance of Central Electricity Authority (CEA) and prioritise them.

5.3 After scrutinizing the proposals, the Appraisal Committee shall submit its Appraisal Report and recommendations in writing to the Appropriate Commission and to the project entity who has submitted the proposal.

5.4 The entity shall then file a petition with the Appropriate Commission for regulatory approval of the scheme for funding from PSDF. Regulatory approval is required as implementation of the scheme will have implications on tariff, which is in the domain of the Appropriate Commissions. Appropriate Commission will ensure that no tariff is claimed for the portion of the scheme funded from PSDF.

5.5 After regulatory approval, the entity will approach NLDC which will serve as the Secretariat to Appraisal Committee. NLDC will forward the projects to the Ministry of Power for administrative sanction/approval and release of funds.

5.6 The Monitoring Committee will consider the projects for sanction based on Appraisal Report and regulatory approval of the Appropriate Commission in accordance with the extant rules/instructions for sanction/approval and release of funds on the lines of Rajiv Gandhi Grameen Vidhyutikaran Yajana (RGGVY) scheme & R-APDRP Scheme. The release of funds from PSDF will be regulated as per the extant instructions of the Ministry of Finance in this regard.

5.7 The Monitoring Committee will also monitor implementation of the scheme in addition to issuing/amending guidelines from time to time. The Committee will also be empowered to review and revise the benchmark cost norms. Utmost care and due diligence will be done to rule out any duplicity with any other existing scheme.

5.8 The release of funds to NLDC from the Public Account for further disbursement to applicant entities for the projects will be made after exercising requisite expenditure control, provided that the scheme has adequate funds provisioned for in the Demand for Grants of Ministry of Power.

6. ASSISTANCE PATTERN

The funding will be as a grant, subject to availability of funds. The quantum of grant shall depend on the strategic importance and the size of the project and shall be considered for release as per the CERC (PSDF) Regulations. The Central Government will lay down the detailed guidelines in this regard in consultation with the CERC.

7. EXECUTION, OPERATION & MAINTENANCE OF THE ASSETS

The entity submitting the project(s) shall be responsible for the execution as well as operation & maintenance of its projects for its full technical life as per CERC (PSDF) Regulations, as amended from time to time.

8. BUDGET & ACCOUNTS PREPARATION AND AUDIT OF PSDF, UTILISATION CERTIFICATE, PREPARATION OF SUBSIDIARY RECORDS AND DOCUMENTS REQUIRED FOR DISBURSEMENT FROM PSDF:

The detailed procedure for preparation of Budget, Accounting of receipts/disbursals from PSDF Public Account, Utilization Certificates, and Audit etc shall be finalized as per the extant instructions of the Government of India.

9. IMPLEMENTATION, MONITORING AND CONTROL OF PROJECTS/SCHEMES

9.1 Regional Power Committees, transmission licensees, distribution licensees, Load Despatch Centres, Power Exchanges, Central Transmission Utility (CTU), State Transmission Utilities (STU)- for intra-state systems which are incidental to the ISTS) as the case may be, will be the implementing agencies. The Appraisal Committee in consultation with Ministry of Power will evolve a mechanism to evaluate the implementation of projects by laying down objective quantifiable financial and technical outcome parameters for each category of projects funded under the Scheme.

9.2 The Appraisal Committee may constitute a Group of Officers of the level of Director from CEA and of the level of General Manager from CTU to monitor implementation of projects/schemes and recommend action to be taken in case of default and delay in implementation. This Group of Officers shall submit Monitoring Reports alongwith the Action Taken Reports to the Appraisal Committee and to the Ministry of Power on a quarterly basis.

10. ANNUAL REPORT

An Annual Report of the Fund including the work undertaken during the year, together with the Balance sheet and Audited Account shall be submitted to the Central Government and the Appropriate Commission. The Annual Report shall also be laid on the table of both houses of Parliament through the Ministry of Power.

Annexure-I

The composition of the Appraisal Committee shall be as under:

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|----|--|---------------------------------|
| 1. | Chairperson, Central Electricity Authority | Chairman |
| 2. | Joint Secretary, OM, Ministry of Power | Member |
| 3. | Secretary, CERC | Member |
| 4. | CEO, POSOCO | Member |
| 5. | Project Proponent | Special Invitee (for appraisal) |
| 6. | An Officer of NLDC not below the rank
of General Manger, Nominated
by head of NLDC | Member Secretary |

Note: CEA in the Power System Wing will provide necessary support to the Appraisal Committee.

Annexure-II

The composition of the Monitoring Committee shall be as under:

1. Secretary, Ministry of Power - Chairman
2. Addl. Secretary, Ministry of Power - Member
3. Chairperson, Central Electricity Authority, - Member
4. Principal Adviser (Energy), Planning Commission - Member
5. Joint Secretary, Transmission, Ministry of Power - Member
6. Joint Secretary, Ministry of Finance (Deptt. of Expenditure)- Member
7. Joint Secretary, Ministry of New & Renewable Energy - Member
8. Joint Secretary & Financial Adviser (JS&FA) Ministry of Power - Member
9. CEO, POSOCO -Member Secretary
