

Annexure - IV

Rationale for adding 15% Equity Portion of GFA of fully depreciated assets in interest cost calculations

The following steps are considered in determining opening balance of long-term loans:

- a) 75% of GFA (excluding consumer contribution) is considered and from that accumulated depreciation (excluding consumer contribution) is subtracted.
- b) As accumulated depreciation is considered from books of accounts, the accumulated depreciation =
 - i. Accumulated depreciation of debt portion of capex (GFA)
 - ii. Accumulated depreciation of equity portion of capex (GFA)
- c) And since for interest cost calculations, only the debt portion of capex needs to be considered, therefore the equity portion of accumulated depreciation that has been subtracted in point b) ii needs to be readjusted (added back) so that closing balance (which is also opening balance for next year) contains only debt portion of the capex

Adjustment for equity portion from fully depreciated assets:

Fully depreciated assets are those assets which are currently operational (present in the books of accounts of Discoms) but have completed their regulatory useful life (as per useful life defined by TGERC in its regulations).

This regulatory useful life may or may not match with the actual useful life of the assets. In other words, the regulatory useful life may be over, but the assets might still be in use by the Discoms. Such assets would only have 10% of the value remaining in capex terms (assuming 10% salvage value, i.e. 90% of the value of the asset has been depreciated).

As normative capital structure is considered with 75% debt and 25% equity, this would mean that entire 75% of the capex (debt) has been depreciated and as salvage value of the asset is 10%, therefore from the balance 25% of the capex (which is nothing but equity), only 15% has been depreciated (25% - 10%).

Hence, for adding back the depreciated portion of the equity only 15% of Equity of Fully Depreciated Assets needs to be added back to make the closing balance of long-term loans = only debt portion of the capex.