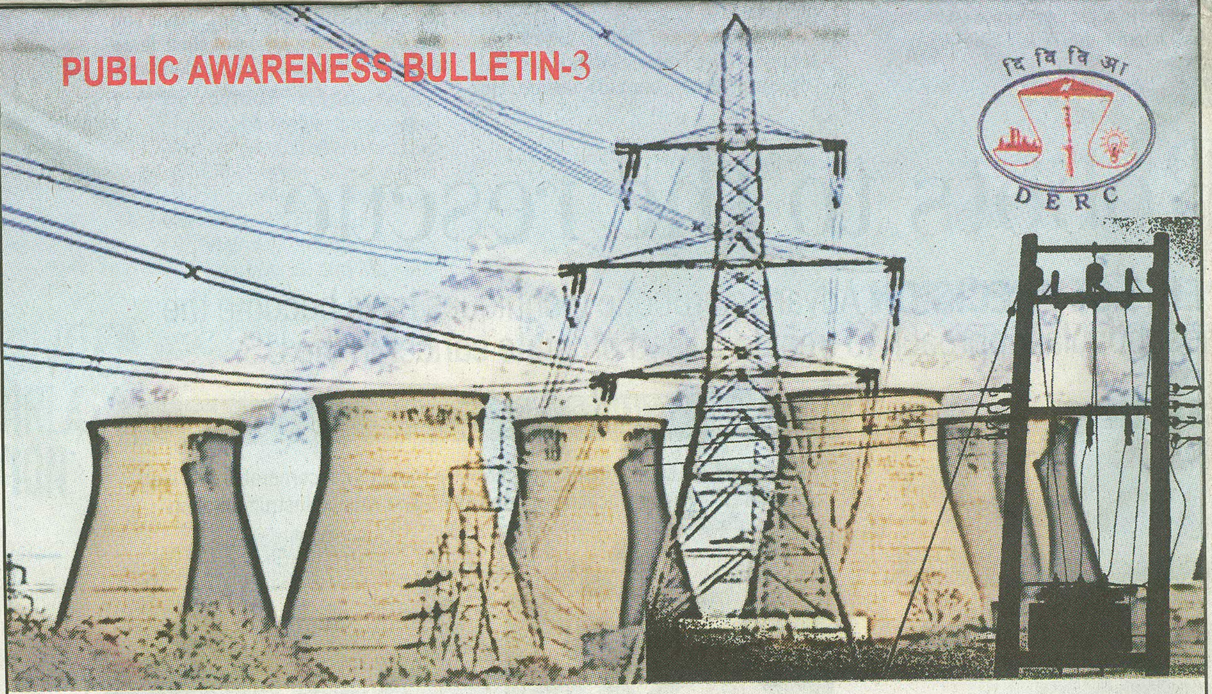


## Why does Power Utility need to invest in Fixed Assets?

Fixed Assets are required for:

1. Augmenting and upgrading the system to meet the load growth;
2. Improving the quality and reliability of supply to consumers;
3. Reduction of Aggregate technical and commercial losses;
4. To increase operational convenience and customer satisfaction.

The investment in Fixed Assets has to be approved by the Commission before work can be taken up by the power utility. Once the capital investment is made by the utility and asset is brought into service, the investment is capitalized after due diligence by the Commission.

## What is the need for Capitalization?

Electricity is a capital intensive business, i.e. cost of equipment is much more than the revenue it can generate every year. If this investment were to be charged to revenue in one year, it would lead to tariffs which may be un-sustainable for the consumers. Capitalization enables amortization of the investment in Fixed Assets through depreciation over a longer period of time instead of charging to the revenue in one year. In this way, it is possible to reduce the burden on tariff as the cost is spread over a number of years.

## How is Capitalization accounted for in tariff ?

The total investment for creation of fixed assets is partly through equity or share capital and partly through debt in the ratio of 30:70. The depreciation and Return on Capital Employed are allowed by the Commission after prudence check of the cost of schemes completed and assets put to use as per prevailing MYT Regulations.

**Issued In Public Interest by**

**DELHI ELECTRICITY REGULATORY COMMISSION**

(A Statutory Body of Govt. of NCT of Delhi)

Viniyamak Bhawan, C-Block, Shivalik, Malviya Nagar, New Delhi - 110 017

Telefax: 26673608, Website: www.derc.gov.in