



**ORDER  
OF THE  
WEST BENGAL ELECTRICITY REGULATORY  
COMMISSION**

**IN CASE NO. SM - 30/21-22**

IN REGARD TO SUO-MOTU ORDER OF THE COMMISSION  
REGARDING RATE OF INTEREST ON WORKING CAPITAL  
FROM PRIME LENDING RATE TO MARGINAL COST OF  
FUNDS BASED LENDING RATE IN VIEW OF CHANGE IN  
RESERVE BANK OF INDIA GUIDELINE

**PRESENT:**

**SRI SUTIRTHA BHATTACHARYA, CHAIRPERSON**

**SRI DURGADAS GOSWAMI, MEMBER**

**SRI PULAK KUMAR TEWARI, MEMBER**

**DATE: 06.04.2022**

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### **Facts in brief:**

- 1.0 In terms of regulation 5.6.5.2 of the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2011, as amended from time to time (Tariff Regulations), the working capital interest is computed on normative basis considering the SBI Prime Lending Rate (PLR) during tariff determination which is subsequently trued up during APR based on actual working capital interest paid, subject to the ceiling of the interest on working capital assessed on normative basis. The relevant regulation of the Tariff Regulations is reproduced below:

*"Rate of interest on working capital so assessed on normative basis, shall be equal to the short term prime lending rate of State Bank of India as on the 1st April of the year preceding the year for which tariff is proposed to be determined. During APR for the concerned year interest on working capital will be allowed on the amount so assessed on normative basis or the actual amount of interest paid, whichever is less."*

- 2.0 The Reserve Bank of India (RBI) has introduced the Marginal Cost of Funds based Lending Rate (MCLR) in April, 2016 to modify the existing base rate/ Retail Prime Lending Rate (RPLR) System in terms of notification dated 17.12.2015 and has directed all the banks the following:

*"All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be internal benchmark for such purposes."*

According to the modified RBI guidelines, banks are required to calculate their MCLR which will be the internal benchmark lending rates. The actual loan pricing will be based on this benchmark depending on the credit standing of the customer and the existing relationship with the bank.

- 3.0 In view of the change in banking policy, the Commission has already considered to compute the interest on working capital based on SBI MCLR during tariff determination. However, it is brought to the notice of the Commission that the utilities might have to pay an interest at a higher rate to the banks/ Financial Institutions based on their credit ratings.





- 4.0 In this regard, the Commission observes that the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019, as amended from time to time, provides the rate of interest on working capital on normative basis and considers the rate as one-year MCLR of the State Bank of India issued from time to time plus 350 basis points.
- 5.0 In view of the difficulties faced by the utilities, the Commission is of the considered opinion that in terms of regulation 5.6.5.2 of the Tariff Regulations, during tariff determination process one-year Marginal Cost of Lending Rate (MCLR) of the State Bank of India as on 1<sup>st</sup> April of the year, preceding the year for which tariff is proposed to be determined, plus 350 basis points is to be considered as the rate of interest for computing the interest on working capital. This will be subsequently trued up during APR based on actual working capital interest paid, subject to the ceiling of the interest on working capital assessed on normative basis.

#### ORDER

- 6.0 In terms of the regulation 8.3 of the Tariff Regulations, in order to remove the difficulty so arisen the Commission considers that henceforth during the tariff determination process the rate of interest for computation of the interest on working capital, assessed on normative basis, shall be based on the one-year Marginal Cost of Lending Rate (MCLR) of the State Bank of India as on 1<sup>st</sup> April of the year, preceding the year for which tariff is proposed to be determined, plus 350 basis points, to be effective on and from 1<sup>st</sup> April 2016 i.e the date from which the revised guidelines of the Reserve Bank of India has become effective. During APR for the concerned year interest on working capital will be allowed on the amount so assessed on normative basis or the actual amount of interest paid, whichever is less.
- 7.0 The interest on working capital which has already been determined for the period effective on and from 01.04.2016 in the tariff orders issued by the Commission considering the SBI PLR/MCLR without any float will be trued up based on actual working capital interest paid, subject to the ceiling of the interest on working capital assessed on normative basis at the rate of one-year MCLR of SBI, as on 1<sup>st</sup> April of the concerned year, plus 350 basis points.





Suo-Motu order of the Commission regarding rate of interest on working capital from Prime Lending Rate to Marginal Cost of Funds based Lending Rate in view of change in Reserve Bank of India guidelines



- 8.0 The regulation 5.6.5.2 of the tariff Regulation shall be amended suitably in due course of time.
- 9.0 All utilities under the purview of this Commission are to take a note of this order.
- 10.0 A copy of the order shall be posted in the website of the Commission.
- 11.0 All utilities shall download the copy of the order from the website of the Commission and act on it. Certified copy of the order, if applied for, be given to the parties on completion of formalities laid down in the West Bengal Electricity Regulatory Commission (Conduct of Business) Regulations, 2013, as amended and on submission of necessary fees.

Sd/-  
(PULAK KUMAR TEWARI)  
MEMBER

Sd/-  
(DURGADAS GOSWAMI)  
MEMBER

Sd/-  
(SUTIRTHA BHATTACHARYA)  
CHAIRPERSON

DATED: 06.04.2022

Sd/-  
SECRETARY

**Certified true Copy**

