Power Situation in Andhra Pradesh: Back to square one?

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The electricity distribution companies (DISCOMs) in Andhra Pradesh (AP) submitted new electricity tariff proposals for the financial year 2013-14 to the AP Electricity Regulatory Commission (APERC) on 5th January, 2013. According to the Electricity Act, 2003 they were supposed to submit these proposals by the end of November 2012. As they did not get the approval of the Chief Minister in time to these tariff proposals they had to delay the filing of these proposals. Through these proposals the DISCOMs aim to mobilize Rs. 12,725 crore additional revenue. This is in addition to Rs. 5,882 crore subsidy promised by the Government of AP. These new tariff proposals imply tariff hike of 42 percent compared to electricity tariffs applicable for the year 2012-13. This is the highest tariff hike in AP's history. These proposals have come in the background of APERC's approvals to DISCOMs to collect Rs. 10,805 crore from consumers in the state in the form of Fuel Surcharge Adjustment (FSA) for the period 2008-09 to first quarter of 2012-13. Another proposal of FSA for the second quarter of 2012-13 to the tune of Rs. 942 crore is pending before the APERC. (Petitions related to FSA for the years 2008-09 and 2009-10 are pending before the Supreme Court) Because of this FSA monthly electricity bills for many consumers nearly doubled. But this high tariff burden did not bring along with it quality power. In fact for the last two years quality of power declined. In the name of Restriction and Control measures extensive power cuts were imposed on all consumer categories. Industrial consumers are getting power for only fifteen days in a month. Besides this they have to pay heavy penalty if their consumption crosses 60% of their contracted load. Domestic consumers in the urban areas have to face power cut of two to four hours in a day and in large part of the rural areas power is supplied for less than 12 hours throughout the year. The less said the better about the treatment meted out to agriculture consumers.

The present tariff hike proposal is double to that of the one in the year 2000-01 as a part of AP Power Sector Restructuring Programme driven by and partly funded by the World Bank. This is considered as a compliment to AP Economic Restructuring Programme taken up by the then Telugu Desam government led by N. Chandrababu Naidu. Following the then tariff hike there was widespread agitation all over the state and the then government was forced to roll back tariffs partially and later governments could not dare to hike the tariffs for considerable period. The present tariff hike shows that electricity situation in the state is back to square one or even in worse situation. This is after more than a decade of reforms in the state's power sector. AP Electricity Reforms Act, 1998 (Latter this Act was saved under the central Act – Electricity Act, 2003) came in to force in February 1999 changing the face of power sector in the state. Erstwhile APSEB was unbundled in to four DISCOMs, APTRANSCO, APGENCO and SLDC. APERC was created as an independent, quasi-judicial regulatory body with extensive powers.

The reform programme aimed at insulating the power sector form politics and see that the sector works on commercial principles. This was premised on the belief that the political interference was the cause of all problems facing the power sector in the state and depoliticising it would solve all problems. The mandate to execute this and to regulate power sector in the state was vested with the APERC. Functions of the APERC include to see that power sector in the state functions in transparent, economical and efficient manner. The Commission was also supposed to balance the interests of all stakeholders. Along with this promotion of private sector was considered as an important part of the restructuring programme and in fact the World Bank prepared a time table to turn over the power sector in to the hands of private entities.

But the decade of experience of reforms showed that private sector has become even more burdensome and the ERCs refuses to exercise its powers to see that the sector in the state works in transparent, economical and efficient manner. Over the period APERC has become an appendage to GoAP's Energy Department.

First taste of this came with the refusal of the APERC to review the power purchase agreements (PPAs) entered with private developers like GVK, BSES (now Reliance Power), Spectrum and Lanco. Power plants of these developers were causing more than Rs. 400 crore annual burden to the consumers in the state due to questionable provisions in these PPAs. APERC refused review these PPAs on the pretext that these PPAs were signed before APERC had come into existence. The private power plants that came later like GMR – Vemagiri, Gautami, GVK Extension, and Konaseema proved to be equally burdensome. What is more the GoAP went out of its way to protect the interests of these developers through issuing a GO Rt. No. 135 of 2009.

Though APGENCO contributes 50% of electricity consumed in the state even after a decade of reforms there is no formal and full fledged PPA to purchase power from earlier units. Cost of power from these plants is being decided arbitrarily. A few years back cost of hydel power cost was hiked from less than 25 paise to Rs. 1.01 per unit in a non-transparent manner. Five new thermal power plants of APGENCO - VTPS – IV, RTPP – II, RTPP – III, KTPS – VI, and Kakatiya – I with combined capacity of 2000 MW have started power generation three years back but PPAs for these plants are not cleared by the APERC. Even then the APERC is allowing the DISCOMs to procure power from these plants. Compared to Mundra ultra mega power plant in Gujarat, which started power generation at the same time, capital costs of APGENCO's new plants are higher by 45 to 120 percent. A report of CAG on some of these plants also showed that undue expenditure was incurred in these plants. As this inflated cost continue to be borne by the consumer the APERC does not find time to examine these PPAs.

At the same time APERC showed undue haste in admitting and giving a favourable order on a review petition of wind energy developers at the cost of electricity consumers in the state. The Commission admitted a Review Petition filed by India Wind Energy Association on 31st January 2012 to review the Commission's Order dated 31st March 2009. According to the Regulations in operation a review petition need to be filed within 90 days of the Commission's relevant Order.

In response to this time barred petition the APERC hiked price of wind energy from Rs. 3.50 per unit to Rs. 4.70 per unit. What is worth noting in this is that while the developers submitted same information in 2008 and 2012 the APERC arrived at two different prices.

The stance of APERC towards open market power purchases also raises doubts. In the Tariff Order for the year 2012-13 the APERC questioned procurement of power from open market through non-competitive manner while backing down GENCO units. In a subsequent Order on FSA the APERC did not find anything wrong in these open market purchases. What is more the APERC also revised the bench mark open market price from Rs. 4.70 to Rs. 5.50 per unit.

The APERC also did not pay proper attention to standards of performance of DISCOMs in the state. Because of dilapidated transmission and distribution network in the state and absence of technical personnel at the ground level every year 800 to 900 persons are dying due to electric shocks. In most of these cases it was the farmers who suffered.

One of the important reasons for the present high cost power in the state is allocation of low quantity of natural gas from KG basin to plants in AP and also diverting part of this gas to merchant power plants. PPAs of new gas power plants were approved by the APERC on the assurance that adequate gas would be available to these plants from KG basin fields. But once gas production started from KG basin wells plants in AP are allocated only 10% of the gas produced which is sufficient to run less than 1000 MW capacity and more than 1700 MW of gas based power plants' capacity is lying idle. These plants are also forced buy costly LNG. Because of deficit DISCOMs are also forced to buy costly power from the open market. A part of gas allocated to AP was diverted to merchant power plants of Lanco and GMR. Initially they sold the entire power generated in these plants outside the states. Now a portion of the power generated is being supplied to AP at open market prices. Because of this during the last two years Rs. 1,100 crore additional burden was imposed on the consumers in the state.

The APERC deliberately underestimated power consumption in the past to see that the tariffs decided by it fits with the electricity subsidy announced by the GoAP. The higher actual consumption later came back to haunt the consumers in the shape of FSA. There was also talk that the Commission met the Chief Minister before issuing the tariff order for the FY 2012-13. This brought down the stature of the Commission in the eyes of the public.

It may not be correct to place whole blame on a single entity – APERC – for the present power situation in the state. But the political class in the state found a new alibi to shift the blame.

Entering a vicious cycle

K. Raghu

Power problems are not new to the electricity consumers of Andhra Pradesh but the situation has reached serious proportion in the last two years with consumers facing unending power cuts and frequent and steep tariff hikes. No one can say with certainty when all these woes will end.

Today the total unrestricted power requirement of Andhra Pradesh stands at 300 Million Units (MU) per day, whereas the Discoms were able to supply around 235 MU only, leaving a shortfall of 65 MU. One can only imagine the situation in March and April this year when the demand is likely to touch 320 to 340 MU when demand for Rabi, children's exams and summer seasons overlap, with no scope for increase on supply front.

No section of society is spared either from power cuts or tariff increases, but rural and agricultural consumers are the most affected. Among agricultural consumers, farmers in northern Telangana districts are the worst sufferers. As per the official information available on APTRANSCO website on January, 9th this year, only 6 out of 2684 agricultural feeders catering to the needs of farmers in the districts of Adilabad, Nizamabad, Karimnagar, Warangal and Khammam were supplied 7 hours of power as assured by the Government. Industry is also suffering from power cuts.

Officially twelve day power cut is imposed on industry. Even when there is no power cut several restrictions are imposed on demand and energy use through various Restrictions and Control (R&C) measures. Several industries, particularly small and marginal, have been closed down and many are facing the threat of being declared as Non Performing Assets (NPAs). This also has the effect of creating large unemployment in the state.

Finally, the power sector in AP has entered a vicious cycle of 'shortages-costly purchases-tariff hikes' (shortages leading to costly purchases, which in turn are leading to tariff hikes).

Coming to tariff increases, consumers had to bear a burden of around Rs 18,000 crore in the last three years and if the proposed tariff hike of about Rs 12,700 crore for the ensuing financial year 2013-14 is also taken into account the burden would be around Rs 31,000 crore. This is unprecedented and no other state in the country had resorted to such steep tariff hikes in such a short span.

The proposed tariff increase for the ensuing year to the tune of 42 percent would impact all categories of consumers. Discoms have made two major changes in their proposals for domestic category which will have severe impact on poor and middle class consumers. Discoms have sought to club two sub-categories of domestic consumers, Category I (A) and Category I (B) and secondly, introduce non-telescopic system in lieu of existing telescopic system.

Clubbing of categories would adversely affect around 50 Lakh poor consumers consuming power in the slab of 51 to 100 units per month as they will now have to pay at the rate of Rs 2.60 per unit for their entire consumption once their consumption crosses 50 units mark. Earlier they were paying at the rate of Rs 1.45 per unit for the first 50 units and Rs 2.60 per unit for the consumption above 50 units. For someone consuming 51 units this amounts to 76 percent tariff hike.

Introduction of non-telescopic system of tariffs would affect all sections except consumers in the slab of 0 to 50 units. Impact would be very harsh on around 35 Lakh consumers, who consume power in the range of 100 to 200 units per month. Under the existing tariff structure tariff for first 100 units is Rs 2.60 per unit and for the consumption above 100 units applicable tariff is Rs 3.60 per unit. However with the proposed change from telescopic to non-telescopic billing, once the consumption level crosses 100 units entire consumption would be charged at the rate of Rs 5.65 per unit. Tariff hike for industry is around 30 percent to 50 percent.

Our state is endowed with abundant resources of coal and water which are essential for setting up of generating stations. Unfortunately we miserably failed to construct the projects as per our requirements either due to love for private projects or constructed projects away from fuel source based on extraneous considerations. Private developers like BPL, Hinduja and several others were given all the facilities for construction of projects but they failed to deliver the goods.

Power from even APGENCO projects is proving to be too expensive in many cases as they were taken up away from pit head and load centres. Because this did not happen, power utilities now need to initiate several measures to cut down their costs in many areas.

Finally, the power sector in AP has entered a vicious cycle of ‘shortages-costly purchases-tariff hikes’ (shortages leading to costly purchases, which in turn are leading to tariff hikes). And any attempt to address this problem shall focus on adding generating capacities from cheapest possible sources, which is possible only with lot of political will. However, even if this will is there, power crisis and consequent burden on consumer would ease only after creation of such additional capacities – which starting from now may take at least two to three years. In any case, a power system overhaul is a definite need.

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