BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION, 82-2-283/B/1, Road No.3, Banjara Hills, HYDERABAD.

1.1 The Transmission Corporation of Andhra Pradesh Limited (APTRANSCO)has published a Public Notice The Hindu on 30th March, 2002 stating that it has filed before APERC the draft Power Purchase Agreement it proposes to enter with M/s. Andhra Pradesh Power Generation Corporation Ltd (APGENCO). According to this Public Notice objections or suggestions if any may be filed with the Secretary APERC on or before 29th April 2002.

1.2 According to the provisions of this draft PPA it will come into effect from 1st April 2002. Also, the existing PPA is valid till March 31,2002 only. Given the fact that APGENCO is the most important source of power it should be deemed that power is already being purchased from it with out any valid PPA. The draft PPA is made public as mentioned above through Public Notice just a day before the date from which this PPA is supposed to become effective. Given the provisions of the AP Electricity Reforms Act 1998 the Commission has give its judgement within 90 days the APTRANSCO should have filed this draft PPA before the Commission and made it public well before this time to make fruitful public intervention possible. This delayed public process shows that the Licensee is not serious about transparency and public participation with the knowledge that this PPA is anyhow going to get the consent of the Commission. Given this we are also apprehensive about how far the concerns and contributions of the public would become a part of the Commissions final judgement.

1.3 According to the ARR of APTRANSCO for the year 2002-03, “ The Hon’ble Commission in its letter dated July 16, 2001 sent to the Licensee and APGENCO, outlined certain principles to be considered while designing the PPA for FY 2003” (3.4.3). We would like to know whether these guidelines are followed while drafting this PPA.

Duration of the Agreement

2.1 According to Section: 3.4.3 (i) of ARR of APTRANSCO for the FY 2003 for the proposed PPA a term of three years from FY 2003 to FY 2005 is being considered. But according to Article 6 of the draft PPA, “This Agreement shall be deemed to be in force with effect from 1.4.2002 and shall be in force for a period unto March 31, 2003”. In other words, this PPA is valid for only one year in spite of the proposal made for three years in the ARR. We request the Commission to see that the proposed PPA with APGENCO will have the same duration of agreement as is the case with IPPs that is 30 years (According to draft PPA with BPL for a coal based plant, Article 7.1)

Equity and Fixed Costs of APGENCO

3.1 The fallowing table show that while arriving at the fixed cost of APGENCO some mischief is being played. There is not much difference in the fixed costs of APGENCO plants other plants even though some of its plants are aged compared to the plants of IPPs and

NTPC Simhadri. One may point out that because of reduced units being purchased its fixed costs per unit has increased. But that is not the case. Even during the current year (2001-02) average cost of power from APGENCO is 2.10 which is nearer to IPPs this year.

	Average cost per unit (Rs)	Variable cost per unit (Rs)	Difference A-V (Rs)	Fixed cost per unit purchased (Rs)	Fixed cost per MW (Rs in Crore)
Apgenco-Thermal*	2.27	1.08	1.19	1.19	0.73
Apgenco-Total **	1.61	0.76	0.85	0.84	0.36
NTPC-Simhadri	2.05	1.02	1.03	1.04	0.33
IPPs	2.13	0.89	1.24	1.20	0.88

* In the ARR for the year 2002-03 all the fixed costs are placed before the thermal units of APGENCO. In the ARR for the year 2000-01 it was given separately for thermal and hydel units. Also in this ARR all the units and their capacities were mentioned. But this practice is suspended from the subsequent ARRs. We request the Commission to direct the Licensee to provide detailed information.

** According to the draft PPA fixed charges are Rs. 0.812 per Kwh.

3.2 The one inference that one can draw from the above table is that APGENCO's fixed costs do not reflect the reality but some thing else. Fixed costs of APGENCO are based on its debt obligations but not on the basis of depreciation of capital assets and return on equity. And this debt obligation in turn is a result of majority of the erstwhile APSEB's debts being loaded on to APGENCO. In other words asset transfer in the wake of unbundling of the APSEB need to be demystified to understand this anomalous situation. The relation between debt obligation of APGENCO and its real fixed costs need to be unraveled.

COSTS PER UNIT OF POWER FROM APGENCO(Rs)

	FIXED COSTS		TOTAL COSTS	
	Thermal	Total	Thermal	Total
1999-2000	0.53	0.43	1.47	1.12
2000-2001	1.01		2.08	1.53

3.3 From the above table it is quite evident that within a year fixed costs nearly doubled. As a result of it total cost of thermal units increased by 42% and average total costs increased by 37%. It is difficult to comprehend such an increase within a year.

3.4 In the case of the last unit of KTPS per MW cost of the plant is Rs.2.95 crore, while it is Rs.4 crore in the case of GVK's Jeegurupadu plant. Further, all other plants are older than this and its costs should have been even lesser. But these lesser costs do not reflect in the fixed costs of APGENCO as mentioned in the ARR for the ensuing year. We request the Commission to look in to these cost aspects before taking a final decision on the tariffs for the ensuing year.

Assets and Liabilities

(Rs. in Crores)

Particulars	According to GO dated 1-2-1999 (1)	According to GO dated 31-1-2000 (2)	Difference (2)-(1)
Gross Fixed Assets	3724.71	8617.0	4892.29
Less Accumulated Depreciation	1005.00	1191.9	186.90
Net Fixed Assets	2719.71	7425.1	4705.39
Total Fixed Assets	5099.83	9681.0	4581.17
Loans and Advances	1333.39	909.7	- 423.69
Total Current Assets	1506.43	1403.8	- 102.63
Total Assets	6606.26	11165.6	4559.34
Equity	700.21	2100.8	1400.59
Pension Funds	1194.00	4386.0	3192.00
Total Long Term Debt	3583.77	6060.2	2476.43
Total Current Liabilities	2211.54	2190.6	- 20.94
Total Liabilities	6606.26	11166.6	4560.34

3.5 The solution to the puzzle of increased fixed costs of power from APGENCO may lay in the sudden revaluation of assets and liabilities upwards without any rationale. Within an year the value of assets and liabilities was increased by 69%. All the liabilities related to pension funds are shifted on to the books of APGENCO. As a result the burden because of this account increased from Rs.1194 crore to Rs.4386 crore, by Rs.3192 crore. Similarly equity also increased from Rs.700.21 crore to Rs.2100.8 crore, by Rs.1400.59 crore. Though the equity has increased by Rs.1400 crore in the books of APGENCO the 100% owner of this the Government of Andhra Pradesh did not infuse funds equivalent to this. And the increase in equity has become a financial mockery. Even the long term debt in the books of APGENCO increased by Rs.2476.43 crore. In order to balance the liabilities the value of assets also hiked by Rs.4559.34 crore.

3.6 A comparison with the IPPs as done above shows that this escalations in the value of assets and liabilities is difficult to explain, except as a sleight of hand, a miracle that is going to cost APGENCO and the consumers of power in the state heavily. Result can already be seen. There is not much difference in the cost of power between APGENCO and IPP, though the latter has much older plants and also it is known for its efficient functioning.

3.7 It is also difficult to understand how already depreciated assets can be revalued upwards.

3.8 We request the Commission to see that the liabilities attributed to APGENCO are those that are incurred for generation purpose only. Other liabilities should be transferred to those for whom they are incurred.

3.9 We raised our concerns regarding disproportionately apportioning the debt burden on to the APGENCO before the Commission during several hearings. In response to such concern that we raised through our submission on tariff for the year 2002-03 APTRANSCO has replied saying, “The allocation of debt obligations were as per the sector restructuring plan. However the overall burden on the sector remains unchanged irrespective of the allocation of the debt liabilities to various parties” (para.28 of the replies). It is difficult accept this argument. The allocation of debt burden between different entities will have far reaching impact on the sector and economy of the state. Through the present pattern of distribution while an efficient arm of the erstwhile APSEB is burdened with huge debt burden, the inefficient arms of it are allowed to go scot-free. In the wake of proposed privatisation of distribution business the private investors are going to be rewarded with much healthier entities by shifting all its burden on to APGENCO. We request the Commission to see that in the name of reforms APGENCO is not made a sacrificial goat.

3.10 We would like to know when the sector restructuring plan came in to being? Whether it is before 1st February, 1999 or after that?

3.11 We also take this opportunity to request the Commission to direct the Licensee to provide us a copy of the said sector restructuring plan.

3.12 We request the Commission to direct APGENCO and APTRANSCO to calculate fixed charges for each plant separately. They are calculating only variable charges separately. Calculation of fixed costs for each plant separately would help to arrive at rate of return and depreciation more rationally.

Srisailam Hydro Power Plant

4.1 The Srisailam Left Canal Power House is giving raise to many questions. Within the APGENCO generating units SSLM LCPH is a unique one though nearly Rs.3000 crore obtained as loan are spent on this we doubt whether a single unit is fed into the AP grid. Already interest on the loans is running into hundreds of crores of rupees, and CA already made adverse remarks on this unproductive loan and the interest payment flowing from this. If we add annual depreciation to total cost of power to be produced it would be some thing special. Even after such a big investment it will be working for only a few days, not more than 20 days in a year. Then all the costs need to be recovered from the sale of these few units, and this power will be beyond the reach of any consumer in the state. Here we would like to make a suggestion: It would be worthwhile, in the background of the support given by the state government to tourism, to transfer this to the tourism department to be used as a monument/museum and write off the assets of this unit from the books of APGENCO. This would reduce the burden of the present and future consumers in the state.

4.2 In the draft PPA loan against SSLMPH is shown to be less than Rs.768 crore. We would like to know the expenditure incurred on SSLMPH until now and how much is going to be further spent on it in the coming days. What proportion of it has come from the loans, both external and internal sources and what proportion of it has come from APSEB/APGENCO and GoAP.

4.3 Given the predominant foreign exchange component in the SSLMPH the consent to the same should not be extended.

Discrimination against APGENCO

Return on equity

5.1.1 APGENCO has been discriminated against in terms of return on equity. While IPPs are being allowed 16% return on equity APGENCO has not been allowed any return on equity. The Electricity Act stipulates that the state governments have to ensure 3% return on net assets. But according to Article 3.1.1.1(b) " No return on equity and incentive shall be allowed during the FY 2002-03 for the purpose of computation of Annual Fixed Charges". Also according to Section 3.4.3 (iv) of the ARR for FY 2003 "Since the anticipated recovery of revenue of the sector as a whole has not been achieved, GoAP, the 100% owner of both APGENCO and APTRANSCO has indicated that it does not desire returns be provided to either Companies". It is of great concern that both efficient and inefficient organisations are being treated equally. Denying return on equity APGENCO will have its serious implications on the its health. Such a treatment would result in erosion of its net worth. We request the Commission to include provision for return on equity in this PPA.

5.1.2 At the same time before allowing the return on equity we request the Commission to reexamine the actual equity of APGENCO. Though the equity of APGENCO is increased by Rs.1400 crore the GoAP did not inject commensurate funds into APGENCO. Allowing rate of return on inflated and unreal equity will be detrimental to the interests of the consumers. Hence while allowing rate of return on equity we request the Commission to arrive at the justifiable level of equity.

Depreciation

5.2.1 It appears that APGENCO is discriminated in terms of not allowing actual depreciation. The draft PPA did not include depreciation in the computation of Annual Fixed Charge. According to Section 3.4.3 (v) of the ARR for the year 2002-03 depreciation will be allowed to the extent necessary for APGENCO to meet its debt repayment obligations. We request the Commission to see that relevant provisions are included in the PPA for payment towards actual depreciation.

5.2.2 While allowing for depreciation we request the Commission not to allow inflated assets as done through the GO dated 31st January,2000. This would result in larger outflow in the name of depreciation than needed. The revaluation of assets upwards has its impact on payment towards depreciation also.

5.2.3 It is also possible that the present debt redemption, in the background mounting on APGENCO huge debt burden, is more than the actual depreciation to be paid.

5.2.4 To make computation of depreciation proper fixed charges need to be calculated plant wise.

Incentives

5.3.1 In the case of incentives also APGENCO is being discriminated. While all IPPs are being allowed incentives if power generation exceeds 80% PLF the same treatment is not extended to the APGENCO plants. The Section 3.4.3 (vii) of ARR of APTRANSCO fot the year 2002-03 states, "The Licensee appreciates that APGENCO is one of the more efficient generating utilities in the country and deserves suitable compensation and incentives for its operation on par with private suppliers of power. However, as stated earlier, the poor state of finances would not allow for this in the time frame of the PPA". The question is why this poor financial health did not come in the way of paying undeserved incentives in the case of IPPs? We request the Commission to see that proper incentives are provided for the APGENCO plants also.

5.3.2 APGENCO is providing reactive and emergency power support to the power grid in AP. APGENCO should be compensated for this reactive and emergency power support

Dispatch Instructions

5.4.1 According to the draft PPA with APGENCO two dispatch instructions per day are allowed. The same may increase in emergency conditions. But in the case of IPPs whose PPAs are made public only one dispatch instruction per day is allowed. This is a clear case of discrimination. We request the Commission to see that APGENCO and IPPs are treated equally in this respect.

Coal Supply Agreement

6.1 Coal/fuel supply agreement is not furnished along with the draft PPA to the public. As a result of it important information like quality of coal, calorific value of coal being supplied is not available.

6.2 The draft PPA itself shows some discrepancies in the coal and secondary fuel prices. The cost of coal of KTPS-V (Rs.1210 per MT) is more than KTPS-A (Rs.1050 per MT) though both these plants are located at the same place. Similarly, cost of coal of VTPS (Rs.1287 per MT) is more than NTS (Rs.1281 per MT) though VTPS is nearer to the source of coal than NTS.

6.3 While all the thermal plants use the same quantity of secondary fuel the prices at which it is being obtained show large difference. While in the case of KTPS-A it is Rs.12,028 per KL, it is Rs.9,809 per KL in the case of KTPS-V. While it is Rs.9,355 per KL in the case of RTPP it is Rs.15,013 per KL in the case of NTS. RTS-B takes the cake with Rs.17,741 per KL. These differences, discrepancies should be addressed before giving consent to this PPA.

7.1 Station heat rate in the case of some of these plants is very high. In the case of NTS it is 3770 Kcal/Kwh and it is 3130 Kcal/Kwh in the case of KTPS-ABC. Also considerable amounts are being spent on renovation of these plants. On a 30MW plant of NTS more Rs.20 crore are being spent. This should have resulted in improvements like lower heat rate.

8.1 The draft PPA includes in the list of ongoing capital investment projects power plants which are not yet permitted through separate PPA. These are RTPP Stage-II, VTPS Stage-IV, Vemagiri GB CCP, and HPCL-APGENCO JV. The capital costs towards these plants should not be allowed until and unless they are permitted through separate PPAs.

9.1 The current reforms in the power sector in AP are meant to remove political interference in the working of the sector. Bur Article.8 of this draft PPAs shows the continuing political interference. According to this Article in the case of disputes between the parties the decision of GoAP shall be final and binding on the parties. In the normal procedure arbitrators are appointed with mutual consent to address such differences. But the present provisions show the preponderance of GoAP!

Prayer to the APERC:

I. Not to give consent to PPA entered in to with APGENCO as vital information regarding the viability of the project is concealed.
II. To increase duration of the agreement from one year to 30 years.
III. Not to allow inflated equity and fixed costs.
IV. Not to discriminate against APGENCO and treat it equally on par with IPPs
V. To allow the petitioner to be heard in person before APERC takes any decision on this petition.

M.Thimma Reddy
29th April, 2002.