

# **BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION \* HYDERABAD**

File No.  
Case No.

**1.1** According to the AP Electricity Reforms Act – 1998 APERC shall give its order within 90 days of the notice. Whether in the meantime ERC has sought and received any more information in relation to the proposed PPA from the power generator and the Licensee. If this is the case it would be if public is also access to that information.

**1.2** The record until now , as given in the reply by APTRANSCO (S.No: 1.2) show that the PPAs hitherto were signed at the last minute. The Licensee is not serious about the PPA as the reply given by it clearly shows that never in the past it filed and got approval for the PPA within the commencement of the financial year.

## **Guidelines of the Commission**

**2.1** How far the guidelines of the Commission are followed in drafting the PPA? One aberration appears to be related to the duration of the agreement. While according to the guidelines the PPA should be for three years the proposed one is meant for one year only. The three year reform period, and nearly one year old direction of the Commission should have been enough for the Licensee to draft a full fledged PPA, rather than a half-baked and incomplete PPA.

**2.2** In the reply given (S.No:1.3) APTRANSCO states that it has accepted the decision of GoAP to have this PPA for one year only but at the same time it says that the decision of the Commission will be implemented. The question is why it did not follow the guidelines given by the Commission?

**2.3** Is this the only violation of the guidelines given by the Commission or it has violated other guidelines also we do not know as we are aware of the contents of the said guidelines. It would be good to know which guidelines it has followed and which it has not!

## **Capital costs**

**3.1** In response to our objections on inflated capital costs of APGENCO, APTRANSCO in its reply (S.N0:3.2) has given the cost per unit billed in 1999-2000 and 2000-01. According to this while fixed cost per unit stood at 48 paise in 1999-2000 it increased to 75 paise in 2000-2001. Even according to this the fixed costs per unit for APGENCO increased by 56.25% within a year. It is very difficult to understand such a steep increase within a year.

**3.2** We felt that the solution to the puzzle of increased fixed costs of power from APGENCO lay in sudden revaluation of assets and liabilities upwards. The reply of APTRANSCO seems to corroborate this. In its reply (S.No:3.4) APTRANSCO states, “the increase in liabilities arose primarily due to increase in pension liabilities, long term debt and equity allocated to APGENCO and this was correspondingly matched by increase in Gross Fixed Assets”.

## **Unfounded Pension Liabilities**

**4.1** In the organised sector an employer is supposed to credit a certain amount to the employees' PF/Gratuity account and invest it on his/her behalf prudently and return it on his/her retirement. This forms part of the cost of product. This applied to erstwhile APSEB also. It made it a part of the cost recovered it from the consumers through the tariff and GoAP in its statutory obligation to see that APSEB earn 3% return should have covered this also. Then the question is why this suddenly turns up as a unfounded liability? Either APSEB should have invested this amount in its business and accordingly should have earned commensurate returns or should have carelessly spent violating the confidence imposed in it! Whatever it may be it is the responsibility and legal obligation of GoAP under the Central Acts to see that APSEB followed statutory requirements scrupulously. Hence, it becomes the duty of the GoAP to fill this gap of unfounded pension liabilities. It is the duty of the GoAP to fill the gap, in relation to pension payments. As part of ensuring 3% rate of return it should have assured periodical remittances to pension funds. It is its legal duty to account for it.

**4.2** This shows that there is no need for APGENCO to float bonds to pay for the unfounded pension liabilities. As is being done the bonds are floated by APGENCO and as a result will have to bear the interest burden along with repayment of principal amount. The floating of bonds by APGENCO will only burden it as these bonds need to be repaid with interest. This will adversely affect the finances of APGENCO.

**4.3** This will also amount to the consumers paying for the same thing twice. They have already paid through tariffs in the past. Now they will be made to pay it along with interest. It may be more than twice! Contrary to the contention of APTRANSCO it adversely affects the consumer through high tariff.

**4.4** If bonds need to be floated the burden of bonds floated should be borne entirely by the GoAP only.

**4.5** The Commission is within its powers to direct the GoAP to meet the responsibility of pension funds up to 1999-2000.

**4.6** One of the reasons given for loading liabilities towards pension funds on APGENCO is the "uncertainty regarding the final placement of employees into restructured entities, majority of the employees were comfortable in packing the liabilities with one single trust...Further, in view of this uncertainty the exact amount allocable to each individual company trust could not have been identified in absence of the decision on the preferred DISCOM configuration option" (APTRANSCO reply (S.No:3.8)). This appears to be far fetched. It could have waited for the things to become clear in stead of going ahead and burden APGENCO. During the same time it is to be mentioned/remembered that for the last three years in ARR all the licensees have separately showed expenditure towards salaries and also the Commission had directed the Licensee to open accounts and deposit the money meant for pension/ future benefits

**4.7** The real reason (!) appears to come in the next paragraph of the same reply, "In the absence of sufficient cash resources either with GoAP or with the utilities, the unfounded liabilities were to be funded in the form of long term liability with issue of bonds. In case of APTRANSCO and the DISCOMs, such liabilities would have eroded their entire capital base and would have eroded their entire capital base and would have further weakened their

already frail financial health". So, the way out they found is to burden APGENCO with the bonds! In order to save the GoAP, APTRANSCO and DISCOMs APGENCO is being made a sacrificial goat. This should stop.

### **Debt burden of APGENCO**

**5.1** Other reason attributed for the increased liabilities is the apportioning of debt between the unbundled entities including APGENCO. In this instance also APGENCO is given a step motherly treatment. While the long term debt of APGENCO increased from Rs.3583.77 crore on 01.02.1999 to Rs 6060.2 crore on 31.01.2000 within a year, the long term debt of APTRANSCO including that of DISCOMs declined from Rs.2962.21 crore to Rs.2137.03 crore during the same time. In its reply APTRANSCO (S.No:3.9) claimed that both of them commenced their operations with similar financial position. The debt:equity ratio of APGENCO as on February 1, 1999 was 3.26 as against 3.30 of APTRANSCO. But with the GO dated 31 March, 2000 the APGENCO position becomes worse as its debt:equity ratio increases.

**5.2** In our submission we requested the Commission to see that the liabilities attributed to APGENCO are those that are incurred for generation purpose only. APTRANSCO in its replies pleaded that this is not possible. We would like to draw the attention of the Commission to the ARR for the year 2000-2001. In it at SNR 1.9, section 2.2.6 it was stated that the segregation of loans and advances between APGENCO and APTRANSCO had been, as far as possible, on an actual basis. The Schedule – 1 gives the dis-aggregated figure as on March 31, 1999. According to it total loans against APGENCO stood at Rs.2044.42 crore and total loans against APTRANSCO stood at Rs.2060.57 crore. But the present picture is totally different.

### **Equity**

**6.1** Another reason for the increased liability of APGENCO is the increased equity. In its reply (S.No:3.9) APTRANSCO states, "The so-called disproportionate debt allocation to APGENCO was compensated by equivalent allocation of equity in to the company". Though equity in APGENCO is increased there is commensurate infusion of funds in to it. As a result the increased equity remains notional.

### **Asset Revaluation and RoR**

**7.1** In the replies of APTRANSCO (S.No:3.4) it was stated that the increase in liabilities of APGENCO was correspondingly matched by increase in Gross Fixed Assets. Whatever increase is there in APGENCO assets it is more notional rather than real. Asset revaluation was not done on the basis of replacement cost nor by technical evaluation of life but only to match and provide for the changed liabilities.

**7.2** It also appears that total generation capacity was taken into account to arrive at the assets of APGENCO according to the first transfer order of February 1, 1999 the installed capacity of APGENCO stood at 5,220MW. But according to the ARR for the year 2000-01 (Sixth Schedule, Revenue Requirement Form 1.3a), in 1998-99 the installed capacity of APGENCO stood at 5,959.50 MW.

**7.3** According to the business plan for purchasing power APTRANSCO has to reimburse the APGENCO the operating costs, depreciation, incentives and guaranteed rate of return of 10% for 2000-01 and 16% thereafter. However, the PPAs for the year 2000-01 and 2001-02

as well as the proposed PPA provide cash cost only and not total cost. The depreciation, power incentive and guaranteed RoR were not allowed to arrive at the cost of power.

**7.4** Return on equity and incentives are not allowed on the pretext that it will burden the consumer. But this burden will be much less than the burden imposed on APGENCO by forcing to float bonds to meet unfounded liabilities of pension funds.

**7.5** While assets of APGENCO were revalued upwards, it was not allowed to recover depreciation. Under normal circumstances it was estimated that this depreciation would be to the extent of Rs.409 crore per annum on revalued assets. This would adversely affect the financial results of APGENCO and result in losses.

**7.6** According to the present practice and proposed PPA depreciation is limited to actual debt repayment obligations. According to the replies given by APTRANSCO (S.No:3.5 and 5.2.3) debt repayment is less than the depreciation charges. This will be adverse to the interests of APGENCO. But given the changed debt obligation of APGENCO this may not hold good. Consumers will be burdened with unnecessary financial burden.

### **Issues related to Srisailam Project**

**8.1** The replies given with regard to our concerns about the Srisailam hydel project only adds to our apprehensions. According to the replies (S.No:4.2) latest estimate of the project is Rs.2482 crore. Out of this up to 31<sup>st</sup> March, 2002 Rs. 2416.45 crore were spent on the project. The remaining unspent amount according to the latest estimates is Rs 65.55 crore. But according to the proposed PPA Schedule – II (page.22) during the financial year 2003 Rs. 79.85 crore are proposed to be spent on this project. This is more than Rs. 14 crore. Whether escalation in costs will stop with this or this will go on like this. This further goes on to prove our contention that it is an unviable project and better turn in to an attractive monument to our follies.

**8.2** 81.5% of the project cost is met by the Japanese bilateral agency JBIC. Unlike other bilateral agencies it does not provide funds as grants, but only as loans. If it is other bilateral agencies we might have thought that as these funds are coming as grants we need not bother as to its economic viability. But this case is different. Added to this it is a tied credit meaning that machinery had to be purchased from Japanese companies only. It has serious implication for costs of the project. This also points to the need to reexamine this project.

### **PRAAYER TO THE COMMISSION:**

**9.1** As the contents of the present PPA are against the interests of both the consumers and APGENCO this should not be given consent in the present form.

M.Thimma Reddy  
25<sup>th</sup> June, 2002.

They say at one place that because it will affect adversely they did not allocate assets and liabilities properly...at another place they said that even if these are allocated as we wanted it would not have affected the tariff much, at all any differently....

Since options process is over, pension burden can be distributed among the unbundled entities properly...