To,	From,
The Secretary, A.P. Electricity Regulatory Commission, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	M. Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, First Floor, 1-9-291/6/1, Vidyanagar, Hyderabad – 500 044

Date: 12-07-2012

Respected Sir,

Sub:- submission of comments on counter filed by APDISCOMs on wind energy tariff.

Ref:- O.P.No.13 of 2012 and the public hearing held on 28-06-2012

1.1 Before adverting to the issues raised in the Counter filed by APDISCOMs we would like to comment on a few issues that have come up for discussion during the public hearing held on 28-06-2012.

1.2 It was contended that when power is being purchased in the open market at Rs. 5.50 per unit why not pay similar price to wind energy also. It was also pointed out that instead of keeping the state in darkness it was better to procure power at higher price. It was argued that in the present crisis situation there was no alternative to paying higher prices. Here it is to be pointed out that this Rs. 5.50 per unit is not paid throughout the year but only during peak/deficit period/hours and the same cannot be applied to power that is being procured throughout the year.

1.3.1 Besides the above, it is also important to go into causes for high open market prices for power. The open market price for power is high because of deficit in power availability. If proper attention is paid to bridge this gap the open market price also will come down. At present the power deficit in the state is about 2,000 MW. If such capacity were to be added to the state's installed capacity the demand for power will come down and also open market prices. At present 1,500 MW coal based thermal plants are in limbo and if proper and concerted action is taken this could be added to the state grid in no time. The BPL plant at Ramagundam (500 MW) and Hinduja plant (1,000 MW) were given all clearances and also fuel connectivity two decades back. If they were added to the state grid in time the deficit would have been low.

1.3.2 Added to this when the gas based power plants with PPAs are running at less than 50% of their capacity because of lower gas supply two merchant power plants in the state belonging to Lanco and GMR groups were provided gas supply to the extent of 1.5 MMSCMD sufficient meet fuel needs of nearly 500 MW. Until now they are selling this power in the open market at huge premiums. Even after the central government stipulated that this power should be sold to DISCOMs they are quoting prices equal to open market prices, but not at the regulated prices. If this gas is made available to the existing plants the reliance on open market would have come down to that extent.

1.3.3 If the State Government has shown as much interest in seeing that BPL and Hinduja plants becomes operational in time and in seeing that available gas is supplied to existing gas based power plants as shown in hiking wind energy tariff power deficit in the state could have been reduced substantially, nearly obviating the need to access open market for power. Over the last few years the GoAP issued two government orders (GOs) and one letter directing the Commission to hike wind energy tariff. In the case of BPL and Ramagundam and gas based merchant power plants the GoAP did everything to pander to the interests of the developers at the cost of power consumers in the state.

1.3.4 The same facts were also placed before the Commission.

Transmission network constraints:

1.4 Another important reason for higher market prices for power facing AP is related to transmission grid constraints. Because of grid constraints surplus power available in other grids could not be transported in to southern grid. Compared to other grids open market prices are high in Southern grid. For example even when utilities in AP are not able to access sufficient power at less than Rs.5.50 per unit utilities in Bihar are able to access at Rs. 4.30 per unit. This grid constraint might be encouraging the merchant plants in South to hike rates. Improving transmission infrastructure will help to bring down market prices for power.

Comparison with conventional plants:

1.5.1 Special incentives or encouragement was proposed towards power plants based on renewable energy sources as they could not compete with conventional power units. It was suggested that the renewable units needs to be given encouragement until they are able to compete with conventional units. In other words tariff s for renewable energy units should be higher than conventional units. In AP because of some unhealthy trends cost of power produced in some conventional, coal based thermal power plants happened to be higher than renewable energy units. Showing this some votaries of renewable energy are arguing for higher tariff for renewable energy, particularly for wind energy units. These units in question are the new plants being set up by APGENCO. The PPAs for these plants are pending before the Commission for the last few years. As they are not yet final the same cannot be taken for comparison. The Comptroller and Auditor General (CAG) in its report for the year 2010 related to APGENCO units clearly brought out excess spending in these units. For example, in the case of Kakatiya – I the excess spending was to the tune of Rs. 555.48 Crore, 26.74% higher than the approved cost. On 6th July 2012 Lokayukta stayed the works at new unit of RTPP in response to a petition which brought out unusually high cost of civil works. The work on the 600 MW unit at RTPP was awarded at a cost of Rs. 1,255 crore while similar work at Kakatiya plant was done at a cost of Rs. 723 crore, an excess of more than Rs. 500 crore. This brought out two issues. One, there appears to be no control on deciding capital costs of the APGENCO plants. Even after CAG findings the higher ups at APGENCO and their controllers at GoAP did not hesitate to inflate capital costs of the new units. Second, the petitioner in question instead of approaching the APERC approached the Lokayukta. APERC is fully vested with all the powers to regulate power sector in the state and is in existence for more than a decade. Instead of APERC Lokayukta has come in to the picture. People in the know also know that Lokayukta in AP has no teeth. This implies that either people in the state are not aware about APERC or fully aware that it does not respond and no use it knocking at its door. Both ways it talks volumes about the way APERC is working.

1.5.2 Another element in the hike in cost of conventional power is the rise in coal prices. Recently Singareni Collieries, Mahanadi Coal Fields and Coal India Limited increased prices for coal supplied by them. It ranged from 20% to 54%. Even before this price hike Mahanadi Coal Fields net profit was Rs. 2,600 crore in 2010-11. In the case of Coal India Limited profits increased by 64% during first quarter of 2011-12 and net profits increased to Rs. 4,143.92 crore. Singareni Collieries is also earning profits every year in the range of Rs. 150 crore to Rs. 300 crore. In the year 2009-10 Singareni Collieries paid Rs. 17.71 crore as dividend to GoAP for its 51% share in the company. Similarly in the year 2010-11 it paid Rs. 44.28 crore as dividend to GoAP. When coal mining companies are reaping such huge profits there is no reason to increase coal prices. Power generation costs based on such coal prices cannot be used for comparison.

1.5.3 The present high cost of power from new units of APGENCO cannot be taken as representative of cost of conventional power units to demand higher tariff for wind energy.

2.1 In our earlier submission we have pointed out that the Indian Wind energy Association (InWEA) did not provide any new information to justify increasing the capital cost of wind energy plants. The counter filed by APDISCOMs supports our argument that there is no need to hike capital costs of the wind energy plants. Appellate Tribunal set aside the Commission's

Order in Appeal No.194/2009 on the grounds that the Commission had taken in to account old information related to the years 2006 and 2007. The new information provided by APDISCOMs in para 10 of the Counter show that the new capital costs adopted by some other ERCs were lower than the one adopted by APERC. But inexplicably at the end of the said para APDISCOMs, siting the new Regulation of Gujarat ERC, expressed their readiness to adopt Rs. 5.3 crore as per MW cost of the wind energy plants. No rationale was provided for adopting this capital cost. The GERC in its Order No.1 of 2010 related to wind energy tariff applicable for three years from 11th August 2009 adopted capital cost as Rs. 4.62 crore per MW. APDISCOMs counter mentioned it as Rs. 5.0 crore. This counter also mentioned the GERC's Regulations for the year 2012-13. But the same could not be located on the website of the GERC. The APERC may kindly verify this. If the increased cost is due to improved technology and higher efficiency the same should reflect in higher quantum of power generation and reduced per unit cost of power so generated.

2.2 There is need for a clear picture of the wind energy situation in the state. In the letter written by the Principal Secretary, Department of Energy – GoAP (letter No. 7688/RES-I/2010-5 and dated 908-2011) to the Commission's Secretary it was mentioned, "VC&MD, NREDCAP has informed the Govt., that the present tariff is becoming one of the critical constraints eventually in successful grounding of the projects"(para.4). But the counter filed by APDISCOMs presented a different picture. According to para 3 of this counter"…Based on NREDCAP sanctions, anticipated wind power capacity addition during 12th plan 2012-17 is about 5,000 MW in different areas of AP and from various developers. Out of which for about 3150 MW anticipated upto 2014… Further, after the announcement of tariff of Rs. 3.50 per unit by the Hon'ble Commission for wind power projects Enercon/Suzlon developers approached DISCOMs no. of times without referring to the tariff and requested for early approvals of power evacuation for commissioning of the projects…". And according para 4 of this Counter, "…after announcement of tariff Rs. 3.50 per unit for wind power projects by Hon'ble Commission a large number of developers have taken up the projects and some of them have commissioned their projects. As such, developers cannot say that commissioning of the projects is at low pace…". This clearly shows that after the Commission's Order dated 1-5-2009 setting the wind tariff at Rs. 3.50 per unit tariffs no more can be considered as the hurdle in the expansion of wind energy capacity.

2.3 The Principal Secretary, Energy Department – GoAP in the above mentioned letter requested the APERC in "public interest" to re-visit the issue of tariff keeping in mind the need for augmentation of power capacity in the State matching the resource potential available (para 9). According to the first para of this letter the estimated wind energy potential in the state is around 5,400 MW. According to the counter filed by the APDISCOMs the sanctioned wind energy capacity is about 5,000 MW. This implies that the estimated potential is being tapped at the tariff proposed by the Hon'ble Commission. As such there is no basis and need to revise the wind energy tariff.

2.4 The Principal Secretary, Department of Energy – GoAP, in his letter to the Secretary of the Commission drew attention of the Commission to Finance Commission's allocation of Rs. 5,000 for distribution in penultimate year of 2012-13 to the states based on their performance in renewable energy sector. For this onetime payment consumers shall not be burdened with higher power purchase costs for years to come.

2.5 The Commission is expected to balance interests of all stakeholders in power sector in the state. While it has to ensure that the utilities recover their costs the Commission has to see that the costs to be so recovered are justified. Also, under the Electricity Act, 2003 the Commission is mandated to protect the interests of the consumers. While we welcome the promotion of renewable energy sources we request the Commission to see that undue burden is not placed on the electricity consumers in the state.

Thanking you.

Sincerely yours,

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