

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

4<sup>th</sup> Floor Singareni Bhavan, Red Hills, Hyderabad – 500 004

**OP No. 1 & 2 of 2015**

## **IN THE MATTER OF**

Petition requesting the Commission

1. Not to allow tariff hike proposed by DISCOM.
2. To review power purchase costs and avoid burden of short term power purchase costs.
3. To review wind power purchase cost.
4. To re-examine T&D costs claimed by DISCOMs
5. To direct DISCOMs to provide complete information claimed under true up.
6. To direct DISCOMs to improve safety and avoid deaths due to shocks.
7. To allow the objector to be heard in person before the Commission takes any decision on this application of the DISCOMs.

## **IN THE MATTER OF**

**Name and full address of the petitioner:**

People's Monitoring Group on Electricity Regulation  
139, Kakatiya Nagar, Hyderabad – 500008

### ***Represented by***

M. Thimma Reddy

Convenor

People's Monitoring Group on Electricity Regulation  
139, Kakatiya Nagar, Hyderabad – 500008

And

**Name and address of the Respondents:**

Chairman and Managing Director

Eastern Power Distribution Company of Andhra Pradesh Ltd,  
Southern Power Distribution Company of Andhra Pradesh Ltd,

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## **AFFIDAVIT VERIFYING THE MEMORANDUM OF OBJECTIONS**

I, M. Thimma Reddy, son of Late M. Pothi Reddy do hereby solemnly affirm and state as under:

1. I am the Convenor of the People's Monitoring Group on Electricity Regulation (PMGER), the applicant in the above matter and am duly authorised by the said applicant to make this memorandum of objections on its behalf.
2. The statements made in the paragraphs of the accompanying memorandum of objections now shown to me are true to my knowledge, derived from the Filing of ARR and Proposed Tariffs for FY 2015-16 of the four DISCOMs and the material gathered by PMGER and made available to me and are based on information and advice received which I believe to be true and correct.

Solemnly affirm

Deponent

12-02-2015

Hyderabad

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**\* 4<sup>th</sup> Floor Singareni Bhavan, Lakdi-ka-pool, Red Hills, Hyderabad – 500 004**

**1.1** The following suggestions and objections are filed in response to the Public Notice published in the newspapers on 29<sup>th</sup> January, 2015.

## **Statutory and Regulatory Provisions**

**2.1** According to the Schedule for determination of retail tariff placed on the APERC website on 28<sup>th</sup> January, 2015 the Commission intends to come out with the retail supply tariff by 30<sup>th</sup> March 2015. According to Section 64 (3) of the Electricity Act, 2003 licensees have to file application for determination for tariff one hundred and twenty days before the said tariffs come in to force. If the new tariff is to come in to force by 1<sup>st</sup> April 2015 application for new tariff should have reached the Commission by last week of November, 2014. APDISCOMs have submitted ARR on 27<sup>th</sup> January and Tariff proposals on 5<sup>th</sup> February.

The whole process under way appears to be violation of due process enshrined under the E – Act.

Under the process followed until now staff of the Commission used to verify the filings of DISCOMs to examine whether they are in accordance with the Act and Regulations made under it before allowing it to be placed before the public. But now the documents were placed on the Commission's website as soon as they were submitted.

In the rush to come out with the tariff order by 31<sup>st</sup> March the public has been denied sufficient time to scrutinize the filings of the DISCOMs. Under the new Act at least 30 days time should have been given to the public to respond in writing. Even when tariff proposals have not been tabled before the Commission the public is asked to file submissions by 16<sup>th</sup> February. That is consumers in the state will not have even two weeks time to examine the tariff proposals. The public shall be given at least 30 days time from the day of publication of new tariff proposals. To facilitate fruitful participation of public in the whole process we request the Commission to extend the deadline to submit written suggestions/objections. The Commission may reduce the time given for response to the GoAP.

Though state bifurcation may be one of the issues that have led to the delay DISCOMs cannot avoid their statutory duty to file the tariff applications in time and it is also one of the functions of the Commission to see that DISCOMs discharge their responsibilities efficiently.

The Commission in its Order dated 13-01-2015 provided, "If the Licensees file such ARR/Tariff Petition/Information subsequent to January 24, 2015, even then the same also will be given public notice and be placed on the website of the Commission to enable any

views/objections/suggestions to be received from all the stakeholders till the conclusion of public hearings.” The Commission may notify this provision again.

Towards promoting transparent and participatory tariff determination process we request the Commission to provide more time to the public to submit written views/objections/suggestions.

## **Power Procurement Estimate**

### **Power requirement – 2015-16**

<b>DISCOM</b>	<b>Power requirement (MU)</b>
EPDCL	19,122
SPDCL	39,069
Total	58,191

**3.1** Total power requirement in AP during 2015-16 is estimated to be 58,191 MU. This estimate is arrived on the basis of assumption that electricity consumption in the state will increase by 20 % during the ensuing year. Needless to say that it is gross overestimation. Even after taking in to account 24X7 electricity supply, electricity consumption in the state will not increase by 20% in 2015-16 over the power consumption reached in 2014-15. DISCOMs’ filings show that during the year 2014-15 electricity consumption increased by 15% compared to 2013-14. But during 2013-14 due to constraints in electricity supply consumption was lower by 1,500 MU compared to the quantum of power allowed by the Commission. When compared to this lower consumption levels consumption achieved in 2014-15 is higher i.e., 15%. During 2014-15 supply situation also improved. Even during this year if we compare it with the quantum allowed by the Commission during 2013-14 increase in consumption will be about 7% only. When we take this fact in to account consumption during 2015-16 cannot increase by 20% compared to consumption levels in 2014-15. It is safer to assume an increase of 10%.

**3.2** To the above we have to add the implications of initiatives taken up in the state in promoting DSM measures across all consumer groups. According to submissions made by the DISCOMs in response to APERC’s directives in SPDCL areas distribution of LED bulbs were taken up in association with EESL in Guntur and Anantapur districts at a cost of Rs. 113 crore. About 5,000 wells are expected to be fitted with solar PV based pump sets. Similarly, in EPDCL areas among other initiatives distribution of LED bulbs was taken up in Srikakulam and West Godavari districts, and 2,496 wells are expected to be provided with efficient pump sets. Impact of all these initiatives in promotion of DSM needs to be taken in to account while estimating electricity consumption in AP during ensuing year i.e., 2015-16.

Along with this quantum of demand estimated by APERC as a part of MYT also need to be taken in to account in this context.

**Agriculture related issues:**

**Agriculture consumption 2015-16**

<b>DISCOM</b>	<b>Consumption (MU)</b>	<b>% of Total Power Purchase</b>
EPDCL	1,949.63	10.20
SPDCL	8,829.57	22.60
Total	10,779.20	18.52

**3.3.1** Agriculture consumption figures provided by DISCOMs raise many questions. Both the DISCOMs still are not following the ISI methodology. They assure us that they will follow it in future! Even if they follow ISI methodology but implement it in the same way that they are doing with the present methodology it will not be of much use. In the case of SPDCL out of 5507 sample DTRs which were metered readings of only 472 DTRs were valid. That is not even 10% of DTR meter readings are valid. When sample itself is a small part of all the existing DTRs and when even 10% of them are not valid one can expect how reliable such information could be. EPDCL did not provide information on the number of pump sets under its jurisdiction, the number of sample DTRs and valid DTR meter readings.

**3.3.2** One way to arrive at reliable agriculture consumption figures could be to meter all DTRs. Under SPDCL out of 8,20,732 pump sets under earlier 6 circles 4,31,799 were converted in to HVDS pump sets and all the DTRs related to them were metered. That is more than 50% of the pump sets are covered under metering. Similarly other DTRs with agriculture connections may be metered. The same steps may be taken under EPDCL also. At the same time care shall be taken to see that meter readings are noted regularly.

**3.3.3** SPDCL in its filing mentioned that 86.27% of the pump sets have capacitors. But ground level experience show that not even 10% of the farmers are using capacitors. The Commission shall direct the DISCOMs to pay full attention to implementation of DSM measures in the agriculture sector.

**3.3.4** Continuous obfuscation of agriculture consumption data leads to a suspicion that T&D losses are being shown as agriculture consumption to benefit from state government's subsidy support.

## T&D Losses

DISCOM	2013-14	2014-15	2015-16
EPDCL	7.89	7.89	12.17
SPDCL	11.84	11.61	13.77

**3.4** On the T&D losses front the situation in fact is deteriorating. Take the case of EPDCL. According to the proposals filed by it for the year 2015-16 T&D losses during the ensuing year will be 12.17%. In 2013-14 it reached T&D loss level of 7.89%. This in turn is higher than T&D loss level of 6.96% achieved way back in 2010-11. Similar is the situation in the case of SPDCL as is evident from the above table. Lower T&D losses lead to lower power purchase cost and lower tariff burden.

## Power Purchase costs

**4.1** Power purchase costs account for nearly 77% of the annual revenue requirement for the year 2015-16. While ARR of both the DISCOMs together stands at Rs. 30,308.28 crore power procurement costs are at Rs. 23,250.18 crore.

### Need for clarity:

**4.2** Need for clarity in allocation of power plants. Earlier GoAP after bifurcation took the stand that power from plants for which the PPAs were not approved by the APERC will not be shared with Telangana. Following this APDISCOMs are reported to have cancelled these PPAs. They also refused to acknowledge the APERC order on related issue. But the present filing shows that while AP will be sharing power from some of these plants it will not be sharing power from some other plants. While power from GENCO's thermal plants is being shared, power from GENCO's hydel plants is not being shared. While power from TPTCIL is being shared the same from Hinduja National Power Corporation Limited is not being shared. It is important to settle these issues at the earliest through discussions/arbitration/judicial intervention. In the interest of peace and prosperity in both the states this confusion shall not be allowed to be continued.

**4.3.1** Draft PPAs of RTPP II, RTPP III and VTPS IV units of APGENCO are pending before the Commission since 2009. Delay in disposing petitions related to these PPAs is one of the reasons for the prevailing confusion in allocation of plants between AP and Telangana. It is high time the Commission finalises them through public process.

**4.3.2** Hinduja National Power Corporation Limited was selected in 1990s under fast track projects. PPA with it was entered in to by erstwhile APSEB in 1998. It was provided with sovereign guarantee. Along with this conditions were also laid that its cost shall be equal to NTPC's Simhadri unit II. As there was inordinate delay in setting up the project even after fuel linkage liquidated damages shall be collected from it as provided under the 1998 PPA.

Reports indicate that changes are being made in this PPA. The same shall be examined through public hearings.

### **Fixed costs of GENCO plants**

#### **Capital Costs of GENCO New Plants, (Rs/U)**

Station	Capacity MW	Fixed Cost
VTPS – IV	500	1.55
RTPP – II	420	1.58
RTPP – III	210	2.12
DSTP I	800	2.09
DSTP II	800	2.09
UMPP – Mundra	4000	0.98

**4.4.1** Several new thermal power plants are in operation in the state. These include VTPS – IV, RTPP – II, RTPP – III, Damodaram Sanjeevaiah - I and II. Except the last one all other plants are set up by APGENCO. Though they are already in operation PPAs with them are not yet cleared by the Commission. They are pending before the Commission for more than four years. Even then the Commission is allowing the DISCOMs to procure power from these plants. Moreover DISCOMs in their filings are claiming that they are adopting fixed costs as approved by the Commission. According the norms/regulations in operation after the enactment of power sector reform Acts both at state and central level at the first stage PPA between the generating company and distribution licensee shall be approved by the Commission followed by financial closure. After this erection of plant and machinery starts and COD needs to be declared before the distribution licensee starts receiving power from the generating station. All these steps are skipped in the case of the new GENCO plants. Though the draft PPAs are with the Commission for the last three years the Commission could not find time examine these PPAs.

**4.4.2** Fixed costs of these new thermal power plants are high. Compared to the Ultra Mega Power Plant at Mundra in Gujarat set up by Tatas and which started generation recently the fixed costs of the above plants proved to be very high. The fixed costs of these plants are higher by more than 100%.

**4.4.3** The Comptroller and Auditor General’s Report for the year 2010 clearly brings out excess expenditure incurred in the plants it examined. In its Report for the year 2010 CAG examined RTPP – II, VTPS – IV and Kakatiya – I plants. According to this report excess spending in VTPS – IV was Rs. 350 crore, in RTPP – II it was Rs. 308 Crore (18.78%) and in the case of Kakatiya – I it was Rs. 555.48 Crore (26.74%). Total excess expenditure of these three plants amounts to Rs. 1,213 crore. If other three plants are also examined the total excess expenditure may double to Rs. 2, 400 crore. There was delay of 8 to 15 months in operationalising of these plants. But DISCOMs did not bother to recover liquidated damages

from the contractor. According to the terms of the agreement benefits from tax concessions amounting to more than Rs. 2 crore were not returned to the Licensees. For all these plants BGR Energy Systems Ltd was the BOP contractor. Its execution of BOP works at all these plants was mired in controversy. Even CAG commented that undue favour was shown to BGR Company (Para 2.220.2). The electricity consumers in the state are being forced to bear this burden through higher tariffs. We request the Commission to see that this additional expenditure is not allowed and see that fixed cost burden is reduced.

**4.4.4** For nearly a decade LVS mini power plant is being paid cost to the tune of Rs. 27 crore every year towards fixed cost though not a single unit was produced. LVS books shall be verified to examine whether amount is being spent on upkeep of the plant. In the background of declining petroleum prices including naphtha and HSD power may be produced from this plant also.

### **Variable/Fuel cost**

**5.1** Variable cost of power from Hinduja National Power Corporation Limited's plant is estimated to be Rs. 1.86 per unit. Compared to this variable cost of power from NTPC's Simhadri units is estimated to be Rs. 2.60 per unit. While source of fuel (coal) for both the plants is the same (Mahanadi Coal Fields) NTPC's units' variable cost is higher by nearly 40%. This needs to be looked in to.

**5.2** One of the important reasons for increase in power purchase costs is hike in natural gas price by the central government. Price of natural gas increased from \$ 4.2 per MBTU to \$ 5.61 per MBTU. Following this variable cost of power produced from gas based power plants increased.

### **Variable Cost Rs/U**

<b>Plant</b>	<b>2013-14</b>	<b>2015-16</b>
GVK	2.19	2.62
Spectrum	2.48	2.76
Lanco	2.25	3.02
Reliance	1.64	3.44

**5.3** The new natural gas price adopted by the GoI goes against the norms of price fixation, against the PSC and also orders of the Supreme Court. This shall not be allowed. As the consumers of Andhra Pradesh will be severely adversely affected by this APDISCOMs and GoAP should have taken initiative to see that this price is rolled back. These should have explored all avenues to bring down this price, including approaching the Supreme Court. As variable costs are pass through APDISCOMs are least bothered about this burden on the consumers. In the meantime E.A.S Sarma, former Secretary, GoI and Gurudas Dasgupta filed a petition in Supreme Court challenging the above gas price. We request the APDISCOMs and the GoAP to implead in this case before the Supreme Court. This request is not a

misguided one given the APERC's observations in its Order on GVK that DISCOMs will take care of consumers' interests.

**6.1** After meeting the estimated power requirements in the state APDISCOMs will be left with surplus power to the extent of 11,087 MU from short term sources. To retain access to this power the DISCOMs have set aside Rs. 567.15 crore to meet penalty obligations. Under the prevailing financial situation of both DISCOMs as well as GoAP it will be prudent not have this burden.

**6.2** Also, in the background of additional power to the extent of 450 MW being made available to both the states combined together from gas based power plants (AP share expected to be 242 MW) following change in gas allocation policy of GoI, whereby some of the gas allocated to fertiliser plants being diverted to gas based power plants in AP, and additional power being available during summer DISCOMs shall actively consider steps to avoid this penalty.

### **Wind power**

**7.1** According to the DISCOMs filings wind power will be paid @ of Rs. 4.63/U. This rate shall apply only to those plants that have come up after 2009 Order. In the case of wind power generated by older plants it shall be paid @ Rs. 3.50/U only.

**7.2** Wind power purchase price was increased in 2012 from Rs. 3.50 per unit to Rs. 4.70 per unit violating statutory and regulatory provisions. The same price shall be reviewed and old price of Rs. 3.50 per unit shall be restored.

### **Transmission and Distribution Costs**

**8.1** Consequent to bifurcation of the state transmission, distribution and SLDC assets/capital structure has undergone change. Anantapur and Kurnool circles are added to SPDCL and 7 mandals in Khammam district are transferred to EPDCL. The network costs arrived through MYT order for the control period 2014-19 may not reflect the prevailing conditions. New MYT need to be computed taking in to account changes that have taken place consequent to bifurcation of the state.

**8.2** Massive investments in transmission and distribution network are being made in the state under several schemes like 24 x 7 power supply, Deen Dayal Upadhyaya Grameen Yojana (DDUGY) and Integrated Power Development scheme (IPDS). Rs. 3,500 crore are going to spent on green corridor to evacuate power from renewable energy sources. DISCOMs shall be directed to provide complete information on the expenses planned under these schemes.

## True up

(Rs/Cr)

DISCOM	2013-14	2014-15	Total
EPDCL	56	935	991
SPDCL	(90)	1,104	1,014
Total	(34)	2,039	2,005

**9.1** Both EPDCL and SPDCL did not provide any explanation for the revenue gap during FY 2014-15.

**9.2** A large proportion of this revenue gap is accounted for by power purchase costs. One of the reasons for high power purchase costs is importing coal at higher cost. Intelligence Bureau (IB) is reported to have gathered information that fraud had gone in to procuring coal from foreign sources. AP also figures in this list. This needs to be taken in to account while examining this request for true up.

### Electrical accidents

**10.1** According to a report tabled in the Parliament the united Andhra Pradesh has the dubious distinction of having the highest number deaths due to electrical shocks. This reflects the quality of service rendered in the state. It must be mentioned that most of these deaths due to electrocution are taking place in rural areas. Electrical network in rural areas is in bad shape need to be attended to immediately. In the past APERC allowed Rs. 5 crore to be spent by each DISCOM every year on safety measures. DISCOMs are rarely spending these amounts. Also, large number of line man posts in rural areas are lying vacant. Absence of technical support at the village level is also one of the reasons for this high number of deaths due to electrical shocks. We request the Commission to direct DISCOMs to take all steps needed to avoid these totally avoidable deaths.

**11.1** EPDCL started displaying weekly substation and 11 kv feeder outage data on its website. This is a welcome step. SPDCL shall also be directed to display such information on its website.

### Prayer to the Commission:

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