# BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

4th Floor Singareni Bhavan, Red Hills, Hyderabad – 500 004

**OP No. 22,23,24 & 25 of 2015**

**IN THE MATTER OF**
Petition requesting the Commission

1. To direct the Licensees to provide complete information on the claims made by them.
2. Not to allow true up claimed by DISCOM.
3. Not to allow write off of bad and doubtful debts.
4. To scrutinise additional distribution cost claimed by DISCOMs.
5. To strictly monitor spending of funds allocated under special appropriation.
6. Not to allow carrying cost claimed by DISCOMs.
7. To alter Regulation to allow treatment of true up annually
.

**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,

# BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

4th Floor Singareni Bhavan, Lakdi-ka-pool, Red Hills, Hyderabad – 500 004

**1.1** The following comments are being submitted on APDISCOMs' proposals on true up of expenses and revenue for the second control period 2009-10 to 2013-14 in response to the Public Notice published in newspapers on 10-07-2015.

**1.2** The information provided by the two DISCOMs in their petitions is far from sufficient to decide on their claims for true up. Except in the case of salary expenses as a part of O&M expenses to some extent no explanation was given for higher expenses both for distribution and retail supply business. We request the Commission to direct the Licensees to provide complete information on the claims made by them.

**1.3** In the context of higher network costs both the Licensees mentioned that APTRANSCO was also in the process of filing true up claims for transmission business. As the true up claims of the two DISCOMs cannot be finalised without examining the APTRANSCO filings we request the Commission to direct APTRANSCO to file its petition forthwith to obviate delay in processing the claims of the DISCOMs.

| **DISCOM** | **True up of** | **Amount (Rs. Cr)** |
|---|---|---:|
| APEPDCL | Distribution Business | 478 |
| APEPDCL | Retail Supply Business | 680 |
| APSPDCL | Distribution Business | 866 |
| APSPDCL | Retail Supply Business | 5185 |
| | **Total** | **7209** |

**1.4** Through the present filings before APERC the two DISCOMs in AP claimed true up of Rs. 7,209 crore. This is more than 28% of the ARR approved by the Commission for FY 2015-16 (Rs.25,515.31 crore). If this true up is to be allowed it will lead to tariff shock. Given its implications the present true up claims of APDISCOMs need to be examined critically.

## RETAIL SUPPLY BUSINESS

**2.1** Under retail supply business while EPDCL claimed true up of Rs. 680 crore and SPDCL claimed Rs. 5,185 crore. In this true up variation in power purchase cost forms an important component. In the case of EPDCL deviation in power purchase cost stands at Rs. 1,818 crore and in the case of SPDCL it is Rs. 2,894 crore. There is no proper explanation for this deviation. In the filings by DISCOMs it was stated that changes in PP cost was due to a) Change in Quantum of power purchase & b) Change in Price.

**2.2** Further according to these filings deviation in power purchase cost due to price change in the case of EPDCL was Rs. 2,861 crore and in the case of SPDCL Rs. 5,019 crore.

**2.3** According to these filings, "Reasons for increase in PP cost include higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges. Other reasons also include shortfall in domestic gas resulting in lower PLF of gas based IPP's. This shortfall led to higher purchase of energy from short term sources resulting in higher PP Cost" (EPDCL, para.3.2.2.2) The present filings on true up did not state contribution of each of these causes for higher power purchase costs during the second control period. Given the lack of information it is not possible to judge that claim.

**2.4** In the past all these factors were examined during the public process on FSA. But there is difference between the deviation power purchase cost claimed under FSA in the past and claimed under true up mechanism at present. These are presented in the following tables. DISCOMs need to explain the difference between the two estimates.

**EPDCL – Difference between True Up estimates and FSA estimates**

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| Deviation in total PP cost due to change in Price | 515 | 509 | 873 | 1112 | -148 |
| FSA Claimed | 281.10 | 587.06 | 987.92 | 1082.62 | Not filed |
| FSA Approved | 270.00 | 393.83 | 779.83 | 734.31 | Not filed |

**SPDCL Difference between True Up estimates and FSA estimates**

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| Deviation in total PP cost due to change in Price | 800.00 | 1046.00 | 1325.00 | 1744.00 | 104.00 |
| FSA Claimed | 343.37 | 708.94 | 1160.10 | 1210.27 | Not filed |
| FSA Approved | 367.00 | 485.95 | 933.23 | 836.47 | Not filed |

**2.5** In the Summary of filings it was stated, "A part of increase in PP cost due to increase in unit price of power is compensated by FSA.A part of increase in PP Cost remains unapproved." At paragraph 2.1.1 of EPDCL it was stated, "FSA did not completely cover the increase in PP cost due to change in Price. A part of increase in PP Cost remains unapproved”. In the filings it was not explained which part of increase in PP cost due to increase in unit price was compensated by FSA and which part remains unapproved.

**2.6** As mentioned above the factors leading to change in power purchase costs as mentioned in paragraph 3.2.2.2 were already examined by the Commission under FSA and following this the Commission approved the power purchase costs to be recovered under FSA during various quarters. FSA related to the FY 2013-14 only need to be approved by the Commission.

**Unapproved FSA**

**2.7.1** EPDCL claimed Rs. 1,082 crore under unapproved FSA. Similarly, SPDCL claimed Rs. 2,804 crore under unapproved FSA. This “Unapproved FSA” is a misleading term and does not stand scrutiny. This unapproved FSA includes the FSA approved by the Commission for the year 2009-10 and 1st quarter of the year 2010-11 which was stayed by the High Court. The same cannot be claimed under true up now. It may amount to contempt of court.

**2.7.2** In the case of FSA for the remaining three quarters of 2010-11 and the years 2011-12 and 2012-13 the Commission had already approved the FSA and the same was recovered by the DISCOMs. At present in the name of ‘unapproved FSA’ the DISCOMs are trying to recover the amount disallowed by the Commission in the past. This cannot be allowed. PP cost which was disallowed under FSA can not be allowed under true up.

**2.7.3** Only FSA related to the year 2013-14 need to be examined. This can be taken up only after the DISCOMs furnish all relevant information, the way it was done in the past while deciding the FSA for various quarters.

**Decline in Revenue realisation**

**2.8.1** Decline in revenue realisation is other important factor leading to higher true up claims by the DISCOMs. While EPDCL claimed Rs. 269 crore decline in revenue realisation compared to the amount approved by the Commission SPDCL claimed Rs. 3,231 crore decline in revenue realisation. They attributed the decline in revenue to a)Reduction in metered sales and b)Lower realization due to change in sales mix. But they did not provide any concrete information to support their claims.

**2.8.2** Higher sales to agriculture consumers than allowed by the Commission under various Tariff Orders might have led to change in sales mix and also to lower realisation. In the past the GoAP directed the DISCOMs to sustain supply to agriculture. In the Tariff Orders the Commission directed DISCOMs to obtain its clearance before increasing supplies to it. It seems disregarding the Commission’s directives DISCOMs supplied higher quantum of power to agriculture in response to the state government’s directions. Under Section 65 of the Electricity Act, 2003 the GoAP may be directed to fill this gap due to higher supply to agriculture consumers.

**2.8.3** The decline in revenue realisation may be due to reduction in metered sale which in turn is due to higher sales to agriculture and higher T&D losses. If the T&D losses are higher than that allowed by the Commission the cost towards it shall not be allowed to be recovered under true up mechanism. Higher O&M cost and repair and maintenance costs than allowed by the Commission should have led to better performance on various fronts including T&D losses. Higher T&D losses even in the presence of higher O&M cost and repair and maintenance costs show inefficiency of DISCOMs and results of their inefficiency cannot be loaded on to the consumers.

**2.8.4** Hundreds of crores of rupees were spent on HVDS transformers serving agricultural services, particularly under SPDCL. This alone should have led to lower agricultural consumption as well as lower T&D losses. Higher agricultural consumption as well as T&D losses demand a critical reassessment of the HVDS scheme.

**2.8.5** SPDCL has provided for Rs. 48.83 crore towards bad and doubtful debts under 'Other Expenditure'. No details were provided on these bad and doubtful debts. This shall not be allowed and the DISCOM shall be directed to recover all dues/debts.

**DISTRIBUTION BUSINESS**

**3.1** Under distribution business while EPDCL claimed Rs. 478 crore towards true up SPDCL claimed Rs. 866 crore. One of the important contributors is deviation in expenditure on O&M costs. EPDCL incurred Rs. 537 crore higher expenditure under this head than allowed by the Commission. Similarly, SPDCL incurred Rs. 1209 crore higher expenditure on this account. While revised payscales were an important reason for this, other reason was bringing large number of substations under the maintenance of private agencies.

**3.2** In the case of EPDCL number of substations under private agency maintenance increased from 402 to 520 and in the case of SPDCL it increased from 738 to 1133. At the same time maintenance cost of substations under private agencies nearly doubled during the second control period. While in the case of EPDCL it increased from Rs. 28,000 per substation per month to Rs. 49,000, in the case of SPDCL it increased from Rs. 3.25 lakh to Rs. 6.44 lakh.

**3.3** In the past there were allegations that the private agencies were not appointing qualified personnel to man the substations leading to inefficient functioning of substations as well as accidents. It is also important to assess the experience with maintenance of substations by private agencies – both technical as well as financial.

**3.4** During the second control period while EPDCL incurred Rs. 89 crore expenditure higher than allowed by the Commission towards repairs and maintenance SPDCL incurred Rs. 162 crore additional expenditure towards the same. In both the cases more than 50% of the additional expenditure was incurred during the last year of the control period. This sudden spurt in expenditure during the last year needs to be critically examined.

**3.5** Each year the additional expenditure incurred was more than Rs. 5 crore on repair and maintenance. Did the Licensees obtain prior permission of the Commission to incur this additional expenditure?

**3.6** During the second control period while number of distribution transformers increased by 26% (from 2,49,601 to 3,14,583) the number of failed distribution transformers increased by 65% (from 13,633 to 22,531)in the case of SPDCL and cost towards their repair increased by 50% (from Rs. 21.50 crore to Rs. 31.51 crore). In the case of EPDCL while number of distribution transformers increased by 37% (from 1,06,154 to 1,44,954) the number of failed distribution transformers increased by 122% (from 3,283 to 7,218) and cost towards their repair increased more than three times (from Rs. 2.59 crore to Rs.8.47crore). Disproportionate increase in number of failed distribution transformers demands an inquiry in to their procurement and maintenance/repair.

**3.7** Under Distribution business O&M costs come under 'controllable' category. It implies that the DISCOMs can control it and see that it does not cross certain limits. Did DISCOMs attempt this?

**3.8.1** In the case of SPDCL during the second control period while expenditure on Return on Capital Employed (ROCE) declined by Rs. 311 crore that on depreciation declined by Rs. 122 crore. In the case of EPDCL during this period while expenditure on ROCE declined by Rs. 39 crore that on depreciation increased by Rs. 91 crore.. Both the DISCOMs attributed change in depreciation to changed practice in calculating depreciation. The question that arises in this context is how would the same change in practice lead to divergent results in the expenditure incurred by DISCOMs?

**3.8.2** Normally decline in expenditure is to be welcomed as this will help to counter balance increase in expenditure on items like O&M expenditure. But in the case of decline in ROCE of SPDCL it sends different signal. Lower ROCE of SPDCL is a result of lower capital expenditure. During the second control period according to SPDCL's filings the capital expenditure was Rs. 445.10 crore less than the APERC approved target. This indicates the inability of the DISCOM to execute capital projects.

**3.8.3** In order to bring down the number of electrical accidents and consequent loss of lives and assets the Commission allowed the DISCOMs to spend Rs. 5 crore every year on safety measures. Both the DISCOMs listed 10 safety measures on which this special appropriation amounts were spent. At the same time they have also stated, "As the same has been considered in Asset base under Capital Expenditure it has not been shown under Special appropriations head." Given the fact that the capital expenditure targets achieved by the DISCOMs are lower than set by the Commission it is doubtful as to what extent we can take the above statement of DISCOMs at its face value. It may be understood that the amounts allowed under special appropriation were not spent.

**3.8.4** Despite their claims on safety measures the number of fatal and non-fatal electrical accidents continue to mount. During the public hearings on tariffs every year members of the public placed the sorry state of DTRs as well as conductors through visuals/photos before the Commission. Had the DISCOMs judiciously spent the amount on the purpose for which they were meant the situation should have been better. The tragic incident of death of two pallbearers due to electrocution and severe burns to two others when the coffin they were carrying to the cremation ground came in contact with a low-hanging overheard 11 kV power line at Chappidivari Sthavaram village in Ramachandrapuram mandal of East Godavari district on 26th July, 2015 mirrors the sorry state of affairs. In this background we request the Commission to strictly monitor the spending of funds allocated under special appropriation.

**Carrying cost**

| DISCOM | Gap | Carrying cost | True up |
|---|---|---|---|
| EPDCL - Distribution | 378 | 99 | 478 |
| EPDCL – Retail Supply | 476 | 204 | 680 |
| SPDCL - Distribution | 681 | 186 | 866 |
| SPDCL – Retail Supply | 3927 | 1258 | 5185 |
| Total | 5462 | 1747 | 7209 |

**4.1** The carrying cost claimed by the DISCOMs accounts for 24% of their true up claims.

**4.2** Did DISCOMs really incur this expenditure? This needs to be verified. In the past press reports mentioned that APDISCOMs were praised at a meeting organised by the GoI to review the performance power sector for contracting low cost debt/bonds and repaying/redeeming them in a short time.

**4.3** In the case of lower weighted average cost of capital (WACC) it was attributed to lower cost of debt compared to the approved cost of 10%. In the case of carrying cost they have claimed 12% interest. Actual debt incurred and actual carrying cost may be adopted to arrive at the true up.

**Financial Restructuring Plan**

**5.1** The GoAP has entred in to an agreement with the Government of India for a Financial Restructuring Plan (FRP) of power sector in Andhra Pradesh. According to this FRP losses of DISCOMs an on March 2013 will be taken in to account. Under this while 50% of the losses will be converted in to debt bonds over which the state government will stand guarantee and there will be moratorium of three years for payment of the remaining losses/debt. Four years of the second control period will be covered by this FRP. We would like to know the quantum of APDISCOMs losses covered under this FRP and its implications for true up claimed by DISCOMs.

**5.2** We would like to know whether there are any pending receivables/subsidy from the GoAP like single bulb subsidy and additional power subsidy and whether any of these receivable are being treated as debt under the FRP. Here we would like to submit that under

Section 65 of the Electricity Act, 2003 the GoAP is obliged to meet all its commitments towards subsidy and the same cannot be converted in to debt under any plan.

**No tariff proposals**

**6.1** The submissions by DISCOMs did not mention how true up expenses claimed by them have to be recovered? They did not specify whether the true up amount need to be recovered through tariff hike or create regulatory asset and recover them in due course. They did not mention what will be the burden on each consumer category? DISCOMs also did not mention whether agriculture will be exempted from true up costs like in the case of FSA.

**Need to alter the Regulations**

**7.1** According to Regulation 10.7 " For the purpose of sharing gains and losses with the consumers, only aggregate gains or losses for the Control Period as a whole will be considered." The present filings of APDISCOMs put the aggregate losses/deficit at Rs. 7, 209 crore which is nearly 30% of the ARR approved by the Commission for the year 2015-16. If this is allowed to be recovered it would lead to tariff shock that will seriously destabilise the power sector in the state. Even when gains are also of this magnitude, as the previous practices have shown consumer will not benefit directly and the amount will be clawed back in the successive terms, and also for DISCOMs to pay back such huge sums may not be that simple. The accumulation of huge deficit at the end of the control period demands relook at the MYT Regulations. It would be better to share gains or losses with the consumers with a gap of one year rather than five years. The required information also will be ready to follow this. According to Regulation 10.6 "Sharing of gains and losses on variations in 'controllable' items of ARR:- The Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement." In the case of 'uncontrollable' items also DISCOMs may be directed to file variations annually. Gains or losses in the case of both controllable as well as uncontrollable items shall be shared annually. If losses/expenditure is carried to the last year, all losses will be accumulated and if it is allowed under true up will lead to tariff shocks.

**7.2** Under MYT transparency is also compromised. The present true up filings have shown that all the required information is not shared. There is information gap. This could be addressed through treating true up annually.

**7.3** MYT is leading to additional burden of carrying cost. As mentioned above it is nearly one fourth of the true up claims. This additional burden of carrying cost could be avoided through treating true up annually.

**7.4** Based on the above the Commission is requested to alter the existing transmission, distribution and retail supply tariff regulations to allow true up to be examined annually.

**Prayer to the Commission**

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2. Not to allow true up claimed by DISCOM.
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Hyderabad M. Thimma Reddy

31-07-2015