BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION * HYDERABAD

1.1 On 3rd January 2003 Public Notices were published by APTRANSCO and four DISCOMs announcing the Filing of ARR & Proposed Tariffs for FY 2003-04 and calling for comments/objections from the public. This filing is in response to this Public Notice.

CONFUSING NEW FORMATS

1.2 For the present ARR and Tariff Proposal filings new formats are used as suggested by the Commission. An examination of the filings show that DISCOMs did not follow these formats uniformly. As a result it led to lot of confusion in comparing different DISCOMs performance. For example the information on power purchase costs are provided in section 8.3.2 by EPDCL, 8.2.2 by SPDCL, in 8.8.4, 8.4.2 and 8.4.3 by NPDCL and 8.2.2 by CPDCL.

INCORRECT INFORMATION

1.3 There are lots of glitches in the data provided in the filings by different DISCOMs. For example in the table on revenue to be collected from exiting tariffs the central and southern DISCOMs mentioned same numbers against different categories of consumers except domestic consumers. The southern DISCOM in its table on employee costs mentioned a number that is bigger than the sum of all other DISCOMs. Such mistakes made the use of the present filings very unreliable for analysis and examination. Nevertheless we did our best to make best of the situation. If there are any mistakes in our filings directly arising from these shortcomings they may be condoned.

1.4 It is very regrettable that after spending huge amounts on consultants in preparation of these filings such blunders creep up every time. We request the Commission to direct the Licensees to examine their policy of hiring/out sourcing consultants and seriously attempt to train the existing staff who are no less talented in the new exercise.

CONSOLIDATED FIGURES

1.5 According to the AP Electricity Reforms Act 1998 similarly placed consumers in different parts of the state, in spite of the different DISCOMs providing service to them, are to pay similar tariff. For this a comparison of the performance and functioning of different DISCOMs will be of help. For ordinary people like us the present filings present a very daunting task to do such exercise. To facilitate easy comparison even to the lay people it would be better to present consolidated tables incorporating the information of all the DISCOMs at one place. As APTRANSCO is entrusted with the duty of coordination of the sector in the state it may be asked to prepare such a consolidated report and make it available along with other documents or separately.

NEED TO ENCOURAGE GREATER PARTICIPATION

1.6 Even after four years of regulatory interventions in the state public participation in the proceedings of the Commission is limited. It is high time the Commission takes some proactive steps for increasing public participation. This could include holding the hearings in different parts of the state, conducting workshops to educate the consumers with help of the staff of the Commission and civil society organisations, and seeing that those who appear before the Commission are not victimised by the state.

1.7 We feel discouraged to record that no hearings were conducted on new tariff for Ferro alloy industry and on deciding the Fuel Surcharge Adjustment formula.

1.8 The composition of the Commission Advisory Committee (CAC) is weighed against the consumers. While it is dominated by the government/TRANSCO/DISCOM representatives and power industry representatives, consumers are under represented as there appears to be only two members to represent the consumers. There is need to increase the consumers' representation on the CAC.

POWER PURCHASE COSTS:

2.1 A look at the power purchase costs stated in the filings for the year 2003-04 show that the average purchase cost of power has come down. Compared to the previous year's average purchase cost of Rs. 1.81 per unit during the ensuing year it will be Rs. 1.80 per unit. Though on the surface it appears very encouraging a detailed analysis of the same shows that there are many in built dangers that will cancel out the apparent decline in power purchase costs.

APGENCO

3.1 In the case of APGENCO also average cost declined from Rs.1.61 per unit in the previous year to Rs.1.59 in the ensuing year. But this conceals the increasing fixed cost payments to APGENCO though the total plant capacity remains the same. Given the age of the plants this in fact should be declining. In stead it is increasing which is quite disturbing.

Year	Fixed cost payments
2001-02	1923
2002-03	2150
2003-04	2010

This increase is because of two reasons which are quite unjustifiable: One is the placing the burden of employee terminal payments of all the employees of erstwhile APSEB on APGENCO and another is the debt burden because of the Srisailam Left Canal Power House.

3.2.1 According to debt burden towards employee terminal benefits to the extent of Rs.4617.25 crore is imposed on GENCO. It is to be noted that in the wake of options many of the employees opted out of GENCO to other unbundled entities. Then the burden should be shared by other entities also in proportion to the employees opted to work with them. Given the finalisation of options by all the employees, why not distribute unfunded terminal benefits on the basis of the employees distributed among the six unbundled entities, not just on GENCO only. This will have its positive impact on GENCO tariff.

3.2.2 In principle this obligation of unfunded terminal benefits should be borne by the state government, as this burden is from the days preceding the new Act and during this period it has to guarantee 3% return on net asset base. During this period the state exchequer also received money from APSEB out of its profits. The GoAP has the legal obligation to meet this instead of just standing guarantee to the bonds to be floated by APGENCO.

3.3.1 The loan taken from OECF towards Srisailam Left Canal Power House has become a millstone on the neck of GENCO. Following Godbole Committee report which recommended separating LNG terminal from the main Dhabol project, so also the SLCPH need to be separated from the main hydel station and taken out of the books of GENCO.

3.3.2 Usually according to PPAs payments will start only after CoD and starting of supply of power. In the case of SLCPH it appears that payment towards its cost in the shape of interest payments has already started. This is against the norm! In this context we would like to know the loan amount, rate of interest, interest paid until now on this loan, conditions stipulated by OECF for executing the project like procuring machinery from the country of source of funds, and the energy if any generated in this project.

3.3.3 According to the presentation made by APTRANSCO at the time of hearings on 4 gas based power plants on 19th Dec 2002 it was stated in the year-wise capacity additions up to FY2005 , "Does not include SSLBPH pumping operations due to riverbed problems". Will it ever be added to the grid? Isn't it better to wind it up and save APGENCO from collapse?

3.4.1 Besides the fixed costs, variable costs of some of the GENCO units also give rise to questions. The variable cost of RTPP is less than KTPS (A B C) units. While KTPS units are nearer to coalfields, RTPP is far away and considerable amount is to be spent on coal transport also involving loss of coal in transit. Also variable cost of KTPS (A B C) units is greater than KTPS (D) unit though all of them are located in the same area. Variable cost of NTPC (SR) is considerable lower than GENCO's thermal units though their plants are faraway from coalfields. This points to the need to reexamine the fuel supply and fuel transport agreements of APGENCO.

3.4.2 The present PPA with GENCO is valid up to March 31, 2003 only. Why not a long term PPA on the lines of IPPs?

CENTRAL GENERATING STATIONS

4.1 The information provided in the filings show that the quantum of power purchased from Central Generating Stations is declining though it is one of the cheapest power sources.

Year	Power Purchased in MU
2001-02	9705
2002-03	7387
2003-04	5968

We would like to know the reasons for this decline. Whether redistribution of unallocated power to AP is affected because of APTRANSCO's declarations about surplus capacity available with it? Whether it was deliberately done in order to accommodate the 4 gas based plants? What are the financial implications of foregoing supply from central generating stations?

NTPC - SIMHADRI

4.2.1 The PPA with NTPC regarding Simhadri plant is not placed before APERC. It is being contended that as it is a central generating station only CERC has jurisdiction over it. But it is to be remembered that CERC has jurisdiction only on the interstate supplying stations. Unlike other NTPC plants Simhadri plant is dedicated for AP only, and as such APERC only has the jurisdiction on it. Though CERC is said to have its jurisdiction on it until now its tariff is not finalised and the purchases from it are being done on some interim arrangement which the consumers in the state are unaware!

4.2.2 Fixed cost being paid to NTPC-Simhadri unit is increasing rapidly. While during the current year Rs. 193 crores are to be paid for 500 MW the same stands at Rs. 541.3 crores for 1000 MW during ensuing year. On what basis this is being paid to NTPC?

APGPCL

5.1 Power obtained from APGPCL, a cheaper source of power, is declining year after year.

Year	MU purchased
2000-01	504
2001-02	403
2002-03	436
2003-04	383

Even while APTRANSCO's share in the plant remains the same power drawn by it is declining. It is very difficult to understand this development. We request the Commission to direct the Licensee to procure power from APGPCL at least at the previous high level of 504 MU. This would help to reduce the cost of power purchase by more than Rs. 18 crores.

IPP

6.1.1 Power purchase costs from IPPs continues to be heavy burden on APTRANSCO. Next to MPPs power from IPPs is the costliest at Rs. 2.22 per unit.

6.1.2 Fixed cost payments particularly poses a big challenge. For a capacity of 999 MW IPPs are being paid Rs. 846.8 crore towards fixed cost. Compared to this for a capacity of 1000 MW NTPC-Simhadri plant is being paid Rs. 541.3 crore towards fixed costs. IPPs are being paid Rs. 300 more than NTPC plant towards fixed costs. This gives rise to many doubts. Whether fixed costs paid to IPPs are in agreement with the provisions of PPAs? What is the breakup of payment under various heads like depreciation, interest payment, guaranteed return, O&M charges, incentive, etc.

6.1.3 Even among IPPs there is wide disparity in per MW cost of the plant as well as per unit cost of power generated in these plants. When compared to APGPCL and BSES, the rates of gas based plants like GVK, Spectrum and Lanco are very high. And even if they are brought down to the level of BSES tariff the consumers will benefit a lot.

Per MW fixed capital/charges:
APGPCL: Rs. 0.42 cr
BSES: Rs. 0.73 cr
Spectrum: Rs. 0.86 cr
GVK: Rs. 0.87 cr
Lanco: Rs. 0.90 cr

Per Unit purchase cost of power:
APGPCL: Rs. 1.50 kWh
BSES: Rs. 1.80 kWh
Spectrum: Rs. 2.08 kWh
GVK: Rs. 2.18 kWh
Lanco: Rs. 2.72 kWh

6.1.4 The above analysis shows that payments made to the IPPs for power purchase are exorbitant and it is high time their PPAs are reviewed. We request the Commission to open these PPA for public debate and public hearing.

6.2.1 Hefty incentives are again proposed to be paid to GVK and Spectrum on the basis of old benchmarks i.e., they are receiving incentives if PLF is more than 68.5%. In the case of Spectrum two levels of incentives are allowed: one up to 85.5% and another above 85.5% of PLF. This PLF for incentive need to be raised to above 80% as is done in the case of other gas based plants. This will lead to saving of power purchase costs by more than Rs. 30 crores.

6.2.2 In its filing the Licensee has mentioned that GVK and Spectrum have filed for capital cost revision (p.135-136). We would like to know revised capital cost proposed by the respective IPPs, and APTRANSCO's stand on the same as conveyed to the CEA. We also would like to know the recommendations of the independent consultants on this revision of capital cost. We would like to know whether these records are placed before the Commission.

6.2.3 According to the PPA Lanco has to pay liquidated damages to APTRANSCO. The Commission in its order left it to the APTRANSCO to recover or not recover these damages. We would like to know whether APTRANSCO has recovered these liquidated damages or not? If not, why it has not recovered the same? As this is a legitimate payment to be paid to the Licensee we request the Commission to direct the Licensee to recover these damages in unambiguous terms.

6.2.4 The above suggestions/objections point out serious limitations with the PPAs entered in to with IPPs particularly GVK and Spectrum companies. The same need to be amended drastically if they are in line with the present developments and are in the interests of the consumers of electricity. But we see unwillingness on the part of both the Licensee and the Commission. When a Constitution can be amended cannot we amend a PPA that is brought in to operation in a questionable manner?

BSES

6.3.1 According to the APTRANSCO's filings BSES is being paid currently on ad-hoc basis at Rs. 1.69 per kWh. It was not mentioned how this was arrived. Neither there was any public hearing to decide and nor any indication as to how long this ad-hoc treatment will prolong.

6.3.2 For the ensuing year it was mentioned that the cost is based on the draft PPA. We would like to know whether Commission's reservation on some aspects of the draft PPA were taken into account while arriving at this cost? Again it was stated that the formula adopted for calculation of variable cost are the same as adopted for Kondapally and in the accompanying box the price of gas is mentioned as Rs. 3873.80 per 1000 scm (p.140). But in the section dealing with Lanco Kondapally price of gas is mentioned as Rs. 4889 per 1000 scm. We would like to have clear breakup of the costs being paid to BSES.

MPPs/NON-CONVENTIONAL

7.1.1 The inclusion of LVS and Srivatsa in the power procurement list for the ensuing year bring to the fore dangers posed by the MPPs to the Licensee as well as the consumers. The sooner the remaining MPPs are cancelled the better for the state. The corruption and caprice a few at the helm of authority should not be allowed to hold the whole state hostage. If the danger persists there may be a need to reconsider the ban on third party sales.

7.1.2 The fixed costs allowed for the two MPPs is exorbitant. A comparison of these plants brings this out clearly. If you pay Rs. 1 crore per MW to NTPC-Simhadri you will receive 6 MU of power. If you pay the same amount to LVS you won't get any thing back. You should be happy for not paying more. Amusingly, the Licensee presents fixed cost of these two MPPs in terms of per unit delivered! Both the MPPs cost the Licensee and the consumers in turn Rs. 51 crore.

7.1.3 In this context we would like know the stand taken by APTRANSCO vis-à-vis MPPs in general and LVS in particular before different judicial bodies viz., APERC, the High Court and the Supreme Court.

7.2.1 Total quantity of power purchased from non-conventional sources is increasing by 100% every year. Along with quantity per unit price of this power is also increasing every year. Combined together total outgoes on this account are staggering. It is needless to mention that this is the costliest power purchased by APTRANSCO.

Year	Power purchased in MU	Cost Rs per Unit	Total cost paid in Rs/Crore
2002	313	2.89	90.30
2003	666	3.32	221.00
2004	1216	3.48	423.20

While there is no doubt about the need to promote non-conventional and environmentally friendly source of power, the question is at what cost? How the cost of this power is determined? Non-conventional sources of energy encompass wide variety. How can cost of all of them be the same? ARR does not provide information on number and variety of non-conventional plants involved.

7.2.2 At the operational level, how far these non-conventional energy producers are depending on non-conventional fuel sources? According to a study in AP there is not much of bio mass available to sustain bio mass based power generation. But still, in opposition to this study, many people/agencies obtained licenses to generate bio mass energy. If reports are to be believed most of them are running on coal but collecting bills as if they are non-conventional energy producers. If the show is allowed to run, those who have obtained licenses but not yet started the work will be woken up to add to the existing trouble. So before they woke up it is in fitness of things to cancel those licenses and save the sector from unscrupulous moneymakers.

7.2.3 The mini hydel power plants and wind power units also present similar problems. According to some reports mini hydel plants already recovered their fixed costs and other expenses and whatever they receive at present are super profits. In the case of wind power there doubts about the quantum of power generated by them and fed in to the grid.

7.2.4 Over all given the number of non-conventional plants in operation its monitoring presents a problem. In the ARR it was mentioned that 106 meters of 0.2 & 0.5 accuracy meters were installed with respect to these types of plants. Whether any plants are still left in this regard? Whether these meters are regularly monitored and readings taken? How is dispatch of power from these plants coordinated?

OTHER ISSUES RELATED TO POWER PURCHASE

8.1 Whether power purchases during current year proceeded as mentioned in the monthly availability plan provided as a part of the filings for the year 2002-03? If we take out hydel power whether other power sources gave power as mentioned in the monthly plan? Whether there is any change in source of power? In case some generating company failed to supply power as planned whether liquidated damages are collected from that company?

8.2 In its Tariff Order for the year 2002-03 the Commission had directed the Licensee to hold a stakeholder meeting to discuss merit order dispatch of power. In the present filing the Licensee has claimed that they have held such a stakeholder consultation on merit order dispatch (p.23). But we are completely ignorant about such a consultation. We would like to know when was the said consultation held? Who are the stakeholders invited to this consultation? Whether any consumer representatives were invited to this? if so who are they? And finally what is the outcome of this consultation?

8.3.1 Whatever happened to sale of surplus power to other states as mentioned in the current years ARR? Whether APTRANSCO paid any damages to these states for its failure to supply power as agreed?

8.3.2 In the ARR for the ensuing year also the Licensee talks about sale of surplus power to other states. During which season/hour this surplus power is available? Which states are showing interest to purchase power during this season/hour? How is the rate of this power is decided? Can not this surplus power be sold at such rate within the state?

INTEREST BURDEN

9.1 Notwithstanding the Licensees attempts at swapping the high cost loans with low cost loans the interest burden is increasing. During the ensuing year this burden is set increase to Rs.373 crore Rs. 53 crore more than what the Commission allowed for the current year.

9.2 One of the reasons for increase in interest burden is borrowing in order to pay promptly to the private generators in order to avail the rebates. But is it really that productive? Then why not follow similar procedure for APGENCO and save it from severe liquidity crisis. Apart from it TRANSCO should see that its receivables from DISCOMs decline.

9.3 Recent press reports shows that TRANSCO got clearance from the state government to float bonds as they did not receive money in time from the World Bank. Under the WB conditionality it has to pay an interest rate of 13.5%. In the background of low interest rates they can contract loans at lower interest rates compared to the World Bank stipulated rate. Then it is advisable to go in for the bonds and other market borrowings in the place of the World Bank loans. Through this they can wriggle out of the straight jacket of World Bank conditionalities and shape the programme according to the needs of the state! Besides this TRANSCO can also over come bureaucratic delays owing to awaiting clearances from the World Bank bureaucracy(p.26).

STRENGTHENING OF T&D SYSTEM

10.1 Under the power sector reform project hundreds of crores of rupees are being spent to strengthen transmission and distribution system in order to reduce transmission losses. But the outcome is far below expectations. During 2001-02 Rs. 518.90 crores were spent leading to reduction in transmission losses by mere 0.5%. In 2002-03 Rs. 413.02 crores expenditures helped to reduce these losses by 0.25% and in 2003-04 Rs. 561.5 crores are going to be spent to bring down transmission losses by 0.5%. Going by this in order to reduce transmission losses by one percent an investment of Rs. 1200 crores to Rs. 1600 crores will be needed. This is double the estimated expenditure, i.e., it was said that Rs. 800 crore investment is needed to reduce transmission losses by one percent. Given the present expenditure levels the whole programme need to be reexamined and necessary corrections introduced. Otherwise it will lead to unnecessary and additional burden to the consumers and the state government. In this context it is also necessary to review the procedures introduced as a part of the World Bank conditionalities.

10.2 We would like to know whether there are any commercial losses at the EHT and HT level. In its order the Commission directed the Licensee to conduct a study on the commercial losses and also file a time bound action plan for reducing these commercial losses. In its reply APTRANSCO has stated that it has already submitted a report to the Commission in this regard. We request the Commission to direct the Licensee to make this report available to the public.

WHEELING CHARGE

11.1 After fixing the existing wheeling charge new investments are made in the T&D system and new assets are added to the same. There is need to revise this wheeling charge taking these new investments in to account.

11.2 At present revenue from wheeling charges are shared between TRANSCO and DICOMs in the ratio of 25:75. This should be amended to reflect the T&D asset base of the two. .

11.3 In the present filings it was mentioned that the Supreme Court directed the third party sales respondents to deposit the difference in a bank account pending the final order. The present wheeling charge has two components: money and kind. We would like to know how the kind part is being treated in the wake of the Supreme Court order?

OVERDRAWL CHARGES

12.1 While a separate BST was decided for each DISCOM taking into account issues like the subsidy received by them, uniform overdrawl charges are fixed. Given this it is an incentive for those DISCOMs whose BST is higher than this and disincentive for those

DISCOMs whose BST is lower than this. In order to discourage overdrawl, overdrawl charge should be more than the respective BST.

REVENUE SUBSIDY

13.1 According to the present practice subsidy payment for the targeted consumer categories is routed through the DISCOMs. In the present filing it is mentioned, "The Licensee is having an open balance of Rs. 1202.91 crores as subsidy receivable from GoAP. GoAP issued APPFC bonds of Rs. 350 crore during FY 2002-03 and the same has been treated as receipts against these leaving a balance of Rs.852.9 crores" (p.90) We would like to know who will bear the debt burden of these bonds – GoAP or APTRANSCO? If it is APTRANSCO, why should it bear it as it is its legitimate receivable?

13.2 In order to minimise APTRANSCO's receivables, there by reducing its debt burden towards meeting payment obligations to the IPPs we suggest that revenue subsidy from GoAP be routed through APTRANSCO. Towards this necessary book adjustments can be made with the DISCOMs.

PASS THROUGH MECHANISM

14.1 As a part of the present filings the Licensee proposed a Pass Through Mechanism. This is supposed to be an extension of the existing Fuel Surcharge Adjustment to accommodate expenditure hike apart from fuel rate hikes. This appears to be an exercise in formulating a Long Term Tariff.

14.2 The Commission with out conducting any public hearing finalised FSA. But it has conducted a public hearing. Besides this the Commission also organised a workshop with the participation of experts from different parts of the country. Until now the Commission has not announced the LLTP to be followed. The present pass through mechanism appears to be an exercise in this direction. While taking decision on this the Commission should also take into consideration the proceedings of the public hearing on LTTP.

14.3 Once the proposed pass through mechanism is accepted all the future exercises in tariff fixation will become mere rituals as every thing is already decided.

14.4 Automatic pass through mechanisms will encourage padding up of costs. This presents the same danger that the PPAs under the guaranteed returns presented through padded up capital costs. Given the present standards of transparency it will be very difficult to very the actual costs.

14.5 The Licensees argue for a pass through mechanism in the name of un-controllable elements, conditions beyond their influence. But there is no clear description of these elements.

14.6 According to their proposal the audited accounts should be used as the basis of finalisation of the true-up amount. Until now only accounts of 1999-2000 are audited and the accounts of the remaining years are yet to be audited though every year they show audit fee as a part of expenditure. In such circumstance is it possible to rely on any official figures to come up with any true-up figures. This will be as manipulative as the expression 'true-up' suggests.

15.1 According to the present filing (p.78)the long awaited SCADA system is still not operational! Though indigenous expertise in this field was very much available within the city in order to accommodate British companies as its government arm, DFID was financing the project the bidding specifications were drafted in such a manner that the Indian company, then a public sector unit, would be kept out of reckoning. It is another matter that the Licensee has to pay the expenses as they received it as a loan.

PRAYER TO THE COMMISSION

1. To take necessary steps to encourage greater people's participation in regulatory process.
2. To review fixed costs of IPPs, MPPs, APGENCO.
3. To review power purchase costs from all sources
4. To review the capital expenditure of the Licensee on T&D system improvement
5. To not to allow the pass through mechanism proposed by the Licensee
6. To allow the petitioner to be heard in person before the Commission takes any decision on this petition.

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