BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION * 11-4-660, 5th Floor Singareni Bhavan, Lakdi-ka-pool, Red Hills, Hyderabad – 500 004

1.1 On 27th December 2003 Public Notices were published by APTRANSCO and four DISCOMs announcing the Filing of ARR & Proposed Tariffs for FY 2004-05 and calling for comments/objections from the public. This filing is in response to this Public Notice.

CONFUSING NEW FORMATS

1.2 Every year the formats in which ARR and FPT are being filed is changing and it is utterly confusing. This also strikes at the transparency of the filings as it is very difficult for the public to make head or tail out of it. For the present ARR and Tariff Proposal filings new formats are used as suggested by the Commission to be inconformity with the new central electricity Act. We do not know whether these are inconformity with the said Act, but we only felt that it is beyond comprehension of the ordinary public. We request that the revision formats should lead to simplification and not to make it further complex and hence beyond the reach of ordinary people.

NEED TO ENCOURAGE GREATER PARTICIPATION

1.3 Even after four years of regulatory interventions in the state public participation in the proceedings of the Commission is limited. As we observe the number of submitting objections and suggestions is declining instead of increasing. 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 the 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.

1.4 Until now public hearings were conducted at Warangal though it is the headquarters of one of the distribution companies namely NPDCL. Until now the Commission did not hold any hearing at this place on the pretext that there were not many submissions from this region. We submit that without exposing the public to new practices we cannot expect any response from the public from here. Hence we urge the Commission to hold public hearings at Warangal on this occasion.

1.5 The Commission in its Tariff Order for the year agreed to filing of one copy before the Commission and serving a copy on the licensee instead of six copies. But the Public Notices mentioned above asked for seven copies (5 for the Commission + 1 for TRANSCO + 1 for DISCOM). This has again put off many people from coming forward to file objections/suggestions before the Commission.

POWER PURCHASE

APGENCO:

Declining Purchases from GENCO Thermal Stations and Closure Of RTPP:

2.1 The fact of discrimination against APGENCO is taking a concrete shape. The thermal power stations of APGENCO are bearing the brunt of this discrimination. What is more it is the efficient stations that are at the receiving end.

YEAR	Total power Purchased from APGENCO (MU)	Thermal Power Purchased from APGENCO (MU)
2002-03	24,555	20,752
2003-04	22,271	19,452
2004-05	23,489	17,066

2.2 From the above table it is clear the power being purchased in absolute terms is coming down in spite of its contribution to the power sector in the state, and in spite of its efficient functioning. Though the total power being purchased from APGENCO is shown to be high in 2004-05 compared to the current year this is mainly because of the higher power from hydel sources. In case this comes down because of poor rainfall and poor inflows in to the reservoirs the total will come down. The startling fact that comes out from the above table is the continuous decline in thermal power being procured from APGENCO. This declines from 20,752 MU in 2002-03 to 17,066 MU in the ensuing year i.e., 2004-05.

2.3 The victims of this discrimination are the RTPP and NTS. Though a few million units (8 MU)are planned to be procured from NTS not even a single unit will be procured from RTPP for the ensuing year according to the ARR. But RTPP received many awards in recognition of its efficient functioning. Also it served the backward Rayalaseema region which was facing severe power supply problems, particularly voltage fluctuations and breakdowns. It is interesting to note that the variable cost, which is taken as the basis for categorizing the plants on the merit list, of RTPP has increased. In the ARR for the year 2003-04 the variable cost of RTPP was shown as Rs. 1.19/kWh and it has increased to Rs. 1.41/kWh according to the ARR for the year 2004-05. During the same period while variable cost of VTPS remained the same, that of KTPS declined. It is very important to look into this and see that efficient generation stations like RTPP are not cold shouldered and left to decay. The new reform acts enjoins the Commission to work towards efficient power sector. But, the closure of such efficient generating stations which help to stabilize power supply and voltages in areas which are far away from other power generation stations will only lead to inefficient power sector in the state.

2.4 Increased power availability from hydel sources might be shown as the reason for backing down RTPP and NTS units. While hydel units are seasonal and peaking stations thermal units are base load stations. There is need for both of them and availability of hydel stations should not be a pretext for closing or backing down of RTPP and NTS.

Fixed costs of GENCO:

2.5 The tariff filings for the ensuing year show that the fixed costs to be paid to APGENCO are drastically reduced. While this is welcome as it reduces the burden on the consumers, at the same time steps should be taken to see that APGENCO is not unduly burdened leading to its unacceptable closure.

2.6 The ARR for the ensuing year i.e., 2004-05 (page 5) mentions that the fixed costs to be paid to APGENCO for the year 2002-03 are reduced by Rs. 412 crores.

FIXED COSTS TO BE PAID TO APGENCO

(Rupees In Crores)

Year	2003-04 ARR	2004-05 ARR
2001-03	1923	****
2002-03	2150	1738.7
2003-04	2010	1738
2004-05	****	1738

From the above table it is clear that while during 2002-03 Rs. 412 crores towards fixed costs are reduced, during the next year it is brought down by Rs. 272 crores. This fixed cost is being maintained during the ensuing year 2004-05. This may be because of the Commission's order regarding the PPA with APGENCO. Following this the payments towards SLBHES fixed costs and payments towards terminal payments/pension payments base on the transfer scheme are not allowed.

2.7 In the previous submissions we had requested the Commission not allow expenditure on both of these as they are unnecessary and uncalled for burden on the consumers. We are happy that the Commission had accordingly passed the order. But here we would like to state that it was only one part of our submission. The other part deals with the saving of GENCO from the debilitating impact of this burden. But unfortunately the Commission had not taken this into account. We are of the opinion that when the Commission disallowed payments towards terminal payments the Commission also should have disallowed the transfer scheme which imposed these payments on the GENCO.

2.8 According to the Electricity supply Act 1948 it is the responsibility of the GoAP to see that APSEB earned minimum statutory returns. If there was any gap it was the responsibility of the GoAP to fill that gap. At the time of finalizing the transfer scheme it was found that there was unfounded liability of more than Rs.4600 crores towards terminal payments/pension payments. As these amounts relate to the period preceding the unbundling and asset transfer it is the responsibility of the GoAP bear this burden. It is unjustified to burden only GENCO with this. As the APERC is empowered to give directions to the GoAP we urge the Commission to direct the GoAP to take over this liability and save GENCO from imminent collapse resulting from this lopsided asset transfer.

2.9 Also, as the distribution of personnel of erstwhile APSEB among different unbundled entities is already completed, if there is any liability left over after the GoAP meeting its responsibility the other entities should also share this responsibility to the extent of proportion of employees working with them including APTRANSCO. We request the Commission to pass the orders accordingly.

2.10 The SLBHES has become a millstone around the neck of GENCO. The investment made on it is the most irrational one. But once committed, now the question is how to save it from its deadly impact. Our suggestion in the past and in the present is to separate SLBHES from GENCO, and if necessary declare it insolvent and liquidate it. And this practice is not new in the corporate world. To give a latest instant, the L&T demerged its cement business from the parent company to save the latter. To quote a newspaper report, "The much-resisted demerger of the cement division into a separate company has after all turned out to be a bonanza for L&T balance sheet. Post demerger, Larsen&Toubro's liabilities would come down by 55% while there will be only 30% decline in its networth. The new cement company, CemCo will absorb around Rs. 1700 crore worth of liabilities cout of L&T's total loans and borrowings of roughly Rs. 3100 crore" (Economic Times, 27, January 2004). Then why not GENCO do the same thing to save itself from being drowned in Srisailam waters.

2.11 We also pray to the Commission to devise steps necessary to save the GENCO as well as the employees of the erstwhile APSEB without burdening the consumers.

2.12 In the newspapers it was reported that APGENCO has already started the construction of tail pond at the Srisailam power plant. We would like to know whether APGENCO obtained the permission of the Commission in taking up this tail pond work. The tail pond's actual cost is supposed to be only Rs. 60 crores, but officially it was estimated at Rs.100 crore. It is shattering to note that even after the realization that the GENCO is sinking the powers that be are not hesitating to siphon off funds from it and cripple it even more.

Variable Costs:

2.12 Variable costs incurred by APGENCO are also cause of concern. A comparison with Talcher power station clearly brings this out. Both the NTPC's Talcher power station and KTPS are pit head stations. Still the variable cost of the later is twice that of the former. While variable cost of Talcher is Rs 0.50/kWh, for KTPS it is Rs. 0.99. Again the variable cost differential between KTPS and VTPS is not much even though fuel supply to VTPS involves considerable transportation. This calls for reexamination of the fuel supply procurement of some of the plants of APGENCO and the fuel supply and fuel transport agreements entered in to by it. It was reported that for the last two decades the same agency/person is operating the transport of fuel. This needs to be looked into to see that unjustified costs are eliminated.

Discrimination against APGENCO:

2.13 One of the debilitating aspects of the present dealings with APGENCO is the absence of a long term PPA making its future uncertain. We request the Commission to see that there shall be a long term PPA with APGENCO. The provisions of this PPA should not be discriminatory and treat it equally with the IPPs. In fact it should be given preference given its service to the state. The proposed PPA also should help to formalize the past practices without harming the interests of the consumers. In fact the relation in the past before the unbundling should be treated as a old PPA. Declaring all thermal stations of APGENCO as must run stations should form part of this PPA.

2.14 In terms of giving incentives also GENCO shall be treated equally with IPPs. The incentives norms should be made the same for all the generators. The Commission has ordered that GENCO shall be given incentives for achieving higher PLF. However it is learnt that these incentives are being added to the variable costs of GENCO units. This is leading to backing down of GENCO thermal stations units as the increased variable costs are affecting merit order of GENCO. Hence the incentives paid to GENCO shall be added to fixed costs or shown separately as in the case of IPP projects.

2.15 The LC and escrow facility available to the IPPs shall also be available to GENCO also. In fact GENCO shall have first claim on the revenues of TRANSCO/DISCOMs as it is the earliest power generator in the state. Though the Commission has also ordered that LC shall be opened by APTRANSCO for payments to be made to GENCO for energy supplied. However so far no LC is opened and this is leading to worsening of GENCO's finances. We urge the Commission to see that its orders regarding LC shall be implemented immediately.

2.16 APTRANSCO is getting rebates by making advance payments to IPPs and delaying payments to APGENCO. Until the opening of LC and escrow in favour of GENCO the benefit of rebate shall be shared with APGENCO.

IPP:

3.1 The power plants of the IPPs continue to be source of increased exenditure towards power purchases. This is particularly the case with the fixed costs levied by these private power plants. A comparison of these plants with NTPC's Simhadri plant, which is the latest plant among all these plants, clearly brings this out. For this comparison figures for the ensuing year (2004-05) are taken.

Particulars	IPPs	NTPC - Simhadri
Plant Capacity (MW)	999	1000

Units Purchased (MU)	6149	6170
Fixed costs (Rs in Crore)	821.1	485.4
Total Cost (Rs in Crore)	1455.8	1055.1

The above table shows that while IPPs contribute less power compared to NTPC's Simhadri unit they receive Rs. 335.7 crores more towards fixed costs and Rs. 400.7 crores more towards total power sales to APTRANSCO. The escalated fixed costs allowed under the PPAs signed with these IPPs is an important source of this high cost power. To these one has to add incentives given to them. The fixed costs being paid to IPPs is quite high even when compared to APGPCL – a joint venture enterprise. The necessity of relooking at these PPAs can not be overlooked any more.

3.2 It is needless to mention that the Commission in its tariff order for the year 2003-04 has directed the Licensee to renegotiate the PPAs that were concluded prior to the coming in to force of the Reforms Act and constitution of the Commission (para 151). Following this APTRANSCO has written letters to the IPPs and sat back. Whenever the time lapsed it sought and obtained the necessary time extensions from the Commission. It is to be recognized that the IPPs are not going to yield to pleadings. Necessary pressure has to be brought on them to see reason. For this the Commission as well as the state government have to take initiative. In this context it is worth mentioning that the Gujarat government has successfully brought down the fixed costs to be paid to IPPs by more than Rs. 350 crores.

3.3 It is to be stated that the fixed costs of all IPPs, not only those concluded before the Commission has come in to force but also those approved by the Commission. The fixed approved by the Commission are no less than those being paid to the ones that have come in to force before its constitution. In other words the whole IPPs' working needed to be looked in to afresh. Already there are precedents in reviewing the PPAs within the country. The Maharastra Electricity Regulatory Commission asserted its power to review DPC's PPA and this was upheld by the Bombay HighCourt. The Gujarat government went a step ahead and saw to it that fixed costs were brought down by nearly Rs. 350 crores by revising the PPAs. In this background we urge the Commission to review all the PPAs.

3.4 The Supreme Court in its judgment in the cases of Tinsikia Electrical Supply Company vs the State of Assam and Vellore Electrical Company Ltd vs the State of Tamil Nadu (AIR 1989) held that even the power generated by the private power generators should be treated as community resource. The Article 39B of the Constitution of India states that "the state shall in particular direct its policy towards securing …ownership and control of the natural resources of the community are so distributed as best to subserve the common good". This demands that the PPAs are reviewed in such a way that the interests of the common people are protected, and in the given circumstances, given the intricacies of the issues involved, of voicelessness of the common people we strongly feel that it is the responsibility of the Commission to see that these PPAs are recast completely in the interests of the common people.

3.4 According to the power procurement of APRANSCO which was approved by the Commission the Konaseema gas based power plant is to start generation during the year 2004-05. But the same does not find place in the filings of the Licensee. We would like to know if the plant is going to be joined to the grid and whether it will start receiving fixed cost payments. If it fails to join the grid whether liquidated damages will be collected from them. Also, in case it starts supplying power according to the schedule which of the existing GENCO plants will be backed down?

3.5 On page 136 (Form 1.3a: Power Purchases FY 2003-04 Full Year) it was mentioned that GVK power plant was paid Rs. 4 crore towards 'any other charge'. On what basis this is being paid. In the previous years it was not paid. Why payment under this heading appears this year? Already it is being paid Rs. 21 crore towards incentives. We request that this Rs. 4 crore should not be allowed and the incentives should be calculated with PLF as 85% and the incentives to be paid to GVK should be brought down.

3.6 Recently there was change in the ownership/Board of the Spectrum power plant. This must have its impact on the equity and debt of the company as some of the Bankers to the company became Board members following judicial intervention. What impact these changes have on the power being purchased and payments being made to the Spectrum power company?

Liquidated Damages:

3.7 According to the provisions of PPA with IPPs all gas projects which could not achieve financial closure have to pay liquidated damages to APTRANSCO. The Commission has also concurred with this but left it to the APTANSCO whether to recover it or not. We have raised this issues in the objections raised by us during the last years proceedings. Then the Licensee did not answer it. But in a press statement it justified its non-recovery of liquidated damages on the pretext that they got some savings through the revised PPA entered with these gas projects reducing the fixed costs on par with Gauthami. We are unable to understand how these two issues are related. In that case why APTRANSCO had not recovered liquidated damages from Lanco Project which did not reduce its fixed costs on par with Gautami. It is needless to state that the non recovery liquidated damages from Lanco and other IPP gas projects is an uncalled for burden on the consumers and we urge the Commission to direct the APTRANSCO to recover the liquidated damages from all these private projects along with necessary interest payments.

3.8 Calorific value of gas is different for different gas projects even though the source is same. How is it possible? What are the implications of following common norms?

Name of the Plant	Calorific value of gas – kcal/scm	Station heat rate – kcal/kWh	Cost of gas - Rs per 1000 scm	Variable cost - Rs/kWh
GVK	9558	2000	4332	0.93
Spectrum	9687	2000	4406	0.93
Lanco	9405	1900	5299	1.10
BSES	9735	1900	4832	0.96

Mini Power Plants:

4.1 The LVS mini power plant (MPP) continues to present a scandalous picture. Even in comparison with another MPP like Srivatsa the payments being made are quite high. Difference is more than 30 paise per unit.

This does not mean that Srivatsa power is any way cheaper. The high cost power being purchased from these MPPs demand a relook at these plants. These prices are beyond the capacity of the Licensee and are adversely affecting the finances of the Licensee. LVS is being paid Rs. 35.7 crores without contributing a single unit. Also, fixed costs being allowed for these plants is quite high, more than one crore rupees per MW of capacity. It is more than that paid to the IPPs, which the Commission directed to be renegotiated.

4.2 This also calls for relooking at the ban on third party sales. Ban on third party sale should not become a millstone around APTRANSCO's neck. Also, the Commission follow a accepted and transparent method for calculating cross subsidy to be included in the wheeling charges.

4.3 The case regarding LVS also raises many questions. What is the content of Petition filed by APTRANSCO on LVS before the Supreme Court? The usual contention of the parties like MPP is that agreements once signed cannot be reopened. But recent judgements of the higher courts in cases dealing with LIC, UTI and other financial agencies in foreclosing the assured income schemes upheld the practice of closing these schemes. This should mean that the PPAs also are liable to be closed. We fail to understand why the Licensees time and again lose their cases in the courts.

4.4 These questions are also relevant with the cases related to wheeling charges.

4.5 Further, the fuel costs, gas prices in particular is going to affect the power going to be purchased from IPPs and other private power generators. But these power generators given the guarantee of power evacuation provided in the PPAs are unconcerned about the hike in gas prices. As a test case GAIL notified that the gas to be supplied from one of Cairn energy's satellite offshore field is to be sold at market prices. We, PMGER, approached the High Court to stay the gas price hike for this particular field as it is discriminatory. In spite of its importance the APTRANSCO completely ignored our petition in the High Court, and did not bother to file the counter though it was mentioned as one of the respondents. We think that this stands for its attitude and approach towards many of the legal cases pending or already over.

Central Generation Stations:

The Central Generating Stations also lead to some issues.

5.1 One of this is the sudden increase in fixed costs being paid to the Talcher Stage II plants. During the current year 1001 MU were drawn from this plant and Rs. 44 crores were paid towards fixed costs. During the ensuing year the quantum of power going to be purchased from Talcher II doubles to 2,182 MU, but fixed cost payment rises more than four times to Rs. 168.7 crores.

5.2 In the case of NTPC Simhadri units there were regular and continuous press reports about the closure of the unit either because of the internal mechanical failures or because problems related to transmission lines meant to evacuate power from this plant. But in the ARR it was mentioned that this plant has achieved 85% PLF. Is it mere expected achievement or is it a fact?

Non-Conventional Energy:

6.1 Total quantity of power purchased from non-conventional sources has increased by 100% every year between 2002 and 2004. During the year 2005 this is expected to increase by another 50%. Along with quantity per unit price of this power is also increasing every year up to 2004. 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	733	3.20	234.70
2004	1262	3.47	437.00
2005	1802	2.30	415.30

6.2 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? Though this years ARR provides information on quantum of power being procured from different sources it does not provide information on number of non-conventional plants under each variety.

6.3 The non-conventional power units raises many issues. At the operational level, how far these non-conventional energy producers are depending on non-conventional fuel sources? Similar to the gas power plants one of the important issues is the availability of fuel for these plants. There were serious doubts about the availability of bio-mass for the bio-mass based power plants. 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. Despite this these plants succeeded in obtaining the necessary clearnces for setting up the plants. But they ended up felling trees in the forest area unauthorized. These plants in stead of protecting the environment are causing serious damage to it. If reports are to be believed most of them are running on coal but collecting bills as if they are non-conventional energy producers. In these circumstances it is very urgent to examine their actual feasibility and give clearance only afterward. Same is the case with the bagasse based plants. Is there enough bagasse feed stock available to run these plants or the investors are going to set up these plants in order to reap the guaranteed profits under the provisions of various schemes. This particularly because in the background of declining ground water many farmers are quitting sugar cane. There is also new substantial addition to the sugar factories' capacity to warrant more availability of the fuel to the bagasse based plants. Similar environmental issues also need to be examined in the case of the mini hydel power stations. As the show is allowed to run, those who have obtained licenses but not yet started have woken up and started adding to the already unviable capacity. The result is the increasing quantum of power being purchased from these sources and adding to the existing trouble. So before the situation goes out of hand it is in fitness of things to cancel those licenses and save the sector from unscrupulous moneymakers. In other words, the environmental aspects of these non-conventional plants and their feasibility demand a relook at them.

6.4 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.

6.5 According to the Tariff order of the Commission for the year 2003-04 and also one of the ordrs of the Commission related to n-n-conventioanl energy the present treatment of these plants will end by 31st March 2004, and that it will bring in new treatment from 1st April 2004. In the past the Commission has caused a public notice to be issued to examine the issues related to these non-conventional plants. But in the present case we did not come across any such public notice to solicit public intervention in this very vital issue. In the ARR APTRANSCO has claimed that it has submitted a note on NCE tariffs. We heard that the Commission has already done the exercise on it. We do not know how far this is true. We fail to understand why consumers are not invited to participate in the hearings conducted by the APERC to finalise the NCE tariffs?

6.6 While we welcome the APTRANSCO's proposal to reduce tariff for NCE to Rs. 2.30 from the current levels, we want further exploration of bringing down this tariff further. We also would like to know the basis for the APTRANSCO's proposal of Rs. 2.30 per unit. Why not differentiate tariff to NCE projects on the basis of their contribution to system peak? (peak and non-peak energy charges). This is necessary because energy supplied from these units is erratic, seasonal and during non-peak hour but are charged heavily. We request the Commission to hold a full fledged public hearing on various issues related to NCE.

6.7 Given the large number of non-conventional plants in operation its monitoring presents a problem. We would like to know how many of these have interface meters to measure the power being pumped in to the grid. Whether these meters are regularly monitored and readings taken? How is dispatch of power from these plants coordinated? The data provided in the filings show that there are 160 interface meters for the MPP and NCE units, but the number of NCEs number more than this!

ARR/OTHER COSTS

7.1 The unbundling of the existing entities that started with the split of erstwhile APSEB in to Transco and Genco it appears has not stopped yet. The benefits arising from this unbundling are nowhere to be seen. But costs resulting from this unbundling are increasing every year. This year in the name of unbundling the APTRANSCO in keeping with the E Act 2003 some more costs are going to be imposed on the customers.

7.2 A new entity called TradeCo is proposed to be created and new expenditure of Rs. 10 crores are earmarked for this. We fail to understand the need for this additional expenditure. The work that this proposed entity is supposed to do is already being done by TRANSCO. Why separation of the sections dealing with this in the present TRANSCO should lead to additional expenditure of Rs. 10 crores. We request the Commission not to allow this expenditure.

7.3 Under the new Act DISCOMs can directly procure power from the power producers. When the DSCOMs can take over the work until now done by the APTRANSCO why create another entity unnecessarily and add to the burden of the consumers in the form of higher tariffs.

7.4 Every year administrative expenses are increasing by 50%. It increased from Rs. 18.9 crores in 2002 to Rs. 24.3 crores in 2003. It further is expected to increase to Rs. 31.6 crores in the ensuing year. We request the Commission not to allow this galloping expenses. We feel that multiplication of entities resulting from unending unbundling is adding to the expenditure which ultimately is to be met by the consumers. For example even there is not much change in the total number of personnel CPDCL shifted its office to a rented portion while previously it worked from Vidyut Soudha.

INTEREST PAYMENTS

8.1 The payment towards interest payments continue to be a major item of expenditure. Though the interest rates in the financial market are falling there appears to be no respite or APTRANSCO on this count. There appears to be no impact despite the Commission's suggestion to explore low interest loans. The Licensee also claimed in the press that it has saved substantial amount (nearly Rs. 60 crores) through loan swapping. But in spite of it the interest payments during the year 2003-04 overshot the amount approved by the Commission by Rs, 8 crore (From Rs. 359 crores to Rs. 367 crores). During the ensuing year (2004-05) the interest burden is proposed to increase further by Rs. 25 crores to Rs. 392 crores.

8.2 On page 89 of the ARR it was mentioned that the interest rates declined by 1 percent from 14% to 13%. But this evidence is nowhere to be seen. In the press reports it was claimed that due to their proactive efforts burden on consumes have come down. But in the document they do not want to take it into consideration. Also, a comparison of interest rates provided in the ARRs (Form 1.1g) of 2003-04 and 2004-05 show that in fact interest rates increased. Take the case of the year 2003-04 (ensuing year according to the last year filings and current year according to this years filings). The reduction could be found in the case of cash credit only. In the case of REC in fact it increased from 15.2% to 15.69%. This is in continuous decline in the interest rates in the financial market. The Licensee is claiming that its credit worthiness is on the rise. Then, where is the efficiency claimed by the Licensee?

8.3 The APTRANSCO as well as the Government of AP claimed that they are withdrawing the World Bank financing, but they include the World Bank's financing under APL2 in the finds place in the books of the licensee and it increasing from Rs. 5.26 crores during the current year to Rs. 80 crores during the ensuing year.

8.4 One of the important sources of interest burden come from market borrowings for cash deficit contracted to bridge the gap between operating cash inflow and cash outflows. This is expected to stay at Rs. 473.8 crores during the year 2004-05. This could be reduced considerably if receivables are properly managed. While payables of the Licensee proposed to decline by Rs. 5 crores during the ensuing year, the receivables are proposed to increase by Rs. 281 crores during the same period (from Rs. 1171 crores in 2003-04 to Rs. 1452 crores in 2004-05). The Licensee should pay attention at its receivables.

T&D LOSSES AND INVESTMENTS ON TRANSMISSION NETWORK

9.1 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. 428.7 crores expenditures helped to reduce these losses by 0.25% and in 2003-04 Rs. 311 crores are spent and the APTRANSCO claimed to bring down transmission losses by 1%. During 2004-05 Rs. 564 crores are going to be spent to bring down losses by 0.25%. Going by this in order to reduce transmission losses by two percent an investment of more than Rs. 1800 crores are spent. This is more than 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.

9.2 It was also felt by the Licensees themselves that the investments in the transmission and distribution network is leading to negative returns. This also raises the need to examine the appropriateness and optimality of these investments. This reexamination should be done through a public process. We request the Commission to direct the Licensee to make all the records related to the investment, implementation and operation of the transmission and distribution network and related initiatives.

9.3 According to the Licensee losses declined to 6.5% during 2003-04. According to the APERC order APTRANSCO has to purchase 45,806 MU and sell 42,301 MU implying loss level of 7.65%. But according to the present estimates APTRANSCO purchased 45,286 MU and sold 41,600 MU implying loss level of 8.14%. What is the real picture? In the past it was felt that the transmission losses were too high and commercial losses at HT level might be reason for this. The Commission also directed the APTRANSCO to conduct a study and the latter claimed to have implemented the directive, and also implemented the necessary steps to stamp out commercial losses at HT level. But a few months back an industry was raided for stealing power at HT level. Shall we believe that commercial losses at HT level are completely a thing of the past?

MANPOWER ISSUES

10.1 The expenditure on employees is projected to jump by Rs. 40 crores or more than 50% during the ensuing year. During 2002-03 the expenditure on employees was Rs. 65 crores. This increased to Rs. 71 crores during the next year i.e., 2003-04. In fact during this year this expenditure declined by Rs. 4 crores compared to the allowance made by the Commission. But during the coming year 2004-05 this is projected to increase to Rs. 111 crores. No explanation was given for this sudden jump by more than 50%.

10.2 The details of the number of employees provided on Form 1.3b (Volume I, p.141) also do not through any light on this sudden increase. In fact compared to the year 2002-03, the number employees working during the year 2004-05 will be lower. Even then the costs are expected it increase. Also the 'Plans for Rationalisation of Existing Manpower' (Guideline – 10c, Volume II, p.78) mentions the intentions and plans of the

Licensee. According to it number of employees working with it will come down from 4,723 as on 31-3-2003 to 4,058 five years later. From this also is difficult to visualize sudden increase in employee costs.

10.3 As the Form 1.3b shows the number of workers working at present are far below than the sanctioned posts. For example during the year 2004-05 against the sanctioned strength of 8,215 employees only 4,932 will be working. But the Licensee talks about further reducing this strength. What will happen to the work norms and work load? Will it spell danger to the safety to the system as well as consumers?

10.4 We would like to know whether the amounts shown against employee costs are for the sanctioned posts or for only the working persons.

10.5 The Licensee is also utilizing the services of consultants at different levels. Under what head this expenditure is shown? And what is this expenditure? Whether there is any attempt to develop the capacities of the employees of the Licensee to replace the consultants in the near future.

Prayer to the Commission:

We request the Andhra Pradesh Electricity Regulatory Commission

1. To take necessary steps to encourage greater people's participation in regulatory process.
2. To review fixed costs of IPPs, MPPs, and 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 allow the petitioner to be heard in person before the Commission takes any decision on this petition.

M. Thimma Reddy