

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

File No
Case No

IN THE MATTER OF

Petition requesting the Commission

1. To take necessary steps to increase people's participation in the regulatory process.
2. To review all the PPAs entered in to with IPPs.
3. To see that liquidated damages are collected by APTRANSCO with out fail.
4. To reexamine allocation of PPAs to DISCOMs.
5. To allow the petitioner to be heard in person before APERC takes any decision on this petition.

IN THE MATTER OF

Name and full address of the petitioner:

People's Monitoring Group on Electricity Regulation
C/o Centre for Environment Concerns,
3-4-142/6, Barkatpura,
Hyderabad - 27

Represented by

M. Thimma Reddy
Convenor,
People's Monitoring Group on Electricity Regulation
C/o Centre for Environment Concerns,
3-4-142/6, Barkatpura,
Hyderabad - 27

And

Name and address of the Respondents:

Chairman and Managing Director
Transmission Corporation of Andhra Pradesh Ltd,
Vidyut Soudha, Hyderabad

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AFFIDAVIT VERIFYING THE MEMORANDUM OF OBJECTIONS

I, M. Thimma Reddy, son of M.Pothi Reddy, working for the Centre for Environment Concerns, 3-4-142/6 Barkatpura, Hyderabad – 27, 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 2005-06 of the APTRANSCO and the material gathered by PMGER and made available to me and are based on information and advice received which I believe to e true and correct.

Solemnly affirm

Deponent

10 –01 – 2005
Hyderabad

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

1.1 On 9th December 2004 Public Notices were published by APTRANSCO and four DISCOMs announcing the Filing of ARR & Proposed Tariffs for FY 2004-04 and calling for comments/objections from the public. This filing is in response to this Public Notice.

Power Purchase Costs

2.1 Review of Power Purchase Agreements: Power purchase costs account for 85 percent of the power supply cost to the consumers. In order to reduce burden on the consumers attention should be paid to the power purchase costs. The PPAs entered in to with IPPs has become a huge burden on the consumers. Every effort should be made to reduce the cost of power purchased from the IPPs. The NTPC's Simhadri power unit supplies more power (6,484 MU) compared to the IPPs (6,130 MU) the latter is paid Rs. 400 crore more than the former. This starkly shows the need to review these PPAs. The Hon'ble Commission recognized this and directed the APTRANSCO to renegotiate these PPAs. But since then there are not many changes. Though the state government appointed a committee to review these PPAs under the Chairmanship of Sri. K. Rosaiah things did not move much. The proposals placed by APTRANSCO before this Committee propose a reduction of less than half of the possible amount. A comparison with NTPC at this point can be taken as a bench mark to reduce power purchase costs from IPPs. We request the Commission to initiate steps that will result immediate reduction in power purchase costs and provide relief to the power consumers in the state. We also request the commission to correct the irregularities in the PPAs/and acts of Private developers already identified by the CAG reports/ Organisations/individuals and pass on the benefits to the consumers.

2.2 We would like to know whether Lanco has achieved Financial closure. If it has not then we think field is open for reviewing the PPA with Lanco.

Liquidated damages from Short Gestation projects

2.3 PPAs entered in to with IPPs in March 1997 an their scheduled date of completion was ranged from 13 months to 26 months but none of these plants could start their operations within stipulated period. Various provisions in the PPAs provide for collection of liquidated damages from these gas projects for not complying with the completion schedule. The total amount towards these liquidated damages is more than Rs. 400 cr. Earlier this issue was raised before the Commission and the Commission has left the matter to the APTRANSCO. This is not justified. If the same is done by the ordinary consumers commission is treating those amounts as controllable items and deleting them from the ARR of the utilities. Similarly non collection of these liquidated damages is imposing heavy burden on consumers. Hence, if the TRANCSO fails to collect these damages Commission may treat the above as controllable item and reduce the tariff burden on the consumers.

2.4 In the past SLBHES was not allowed by the Commission. But this time it appears again. Its variable cost is said to be Rs 1.10/unit (Peak Rs 1.42 and Off peak Rs 0.85 Ps/unit). Then what is its fixed cost per unit? What is the total cost of power per unit generated in this station?

2.5 Step by step APTRANSCO is giving up its share in the Central Generating Stations though they are cheaper because of the PPAs entered in to with IPPs. This applies to expansion project of NLC (420 MW). Cost of power from this unit will be Rs. 1.92 including fixed and variable costs, and this is less than cost of power to be purchased from IPPs' gas power stations. There is need to review this decision of not purchasing from NLC.

2.6 The variable cost of APGPCL stage I is very high 1.53 compared to stage II 0.97 while fuel is the same. We fail to understand this difference. Being the first gas based unit set up it should have full allocation of gas.

2.7 Every year Rs. 37 crore is being paid to LVS power plant without any power generation. Take over of this plant by APTRANSCO may be better alternative!

PLF for NCE projects for the payment of fixed costs:

2.8 At present TRANSCO I is making payments to NCE projects based on the PLF achieved on monthly basis. However these projects are operating over and above their contracted capacity with APTANSCO. Thus enabling them to claim higher PLF for cost recovery. But TRANSCO should limit the payment to the contracted capacity only. It is learnt that Commission has rejected the TRANSCO's proposal for the payment of energy charges based on half hour PLF. The ABT is implemented based on 15 minute readings. These NCE units should fix meters capable of recoding generation at 15 minutes block periods and shall be paid by the TRANSCO accordingly. Otherwise consumer will be paying for more than contracted capacity at very high tariff, which is unjustified.

Closure of NTS:

2.9 It is learnt that APGENCO has decided to close down the NTS unit and sought approval from Govt of AP, APTRANSCO and APERC,. It is also learnt that APTRANSCO has already communicated its acceptance to close down the NTS unit. The decision to close down the NTS unit is irrational and not in the interest of the consumers of the state and also APGENCO.

- i. The closure of NTS unit is as a result of irrational merit order procedure adopted by the utilities taking only variable cost into consideration for dispatch of energy from generating stations.
- ii. NTS is located at the load center as such it reduces the T&D losses and also improves the voltages in that area. If all these factors are considered the final cost of power from NTS would be lower than average retail supply tariff of Discoms.
- iii. The closure of NTS is not in the interest of consumers in the light of various provisions of Electricity Act, 2003. Anyone can reap huge profits by taking

over the above plant and operate it as captive/merchant plant taking advantage of the provisions of the Electricity Act, 2003.

In the light of the above, we request the commission to advise APGENCO and the GOAP not to close down the NTS plant. We also request the commission to direct APTRANSCO/Discoms to complete the process of reviewing the entire Merit Order Procedure at the earliest. In case the above plant does not fall in the merit order list of APTRANSCO/Discoms, Genco may be directed to explore the option of trading the power from NTS on its own.

Review of PPAs entered with Private Gas projects:

3.1 APTRANSCO has entered into PPAs with four private gas projects, viz. GVK Extension, Goutami, Vemagiri, and Konaseema. These four gas projects have not yet started commercial production of energy. Commission has recently heard APTRANSCO and four gas projects regarding certain amendments proposed to the original PPA based on the review petition filed by APTRANSCO and Private developers in view of the non-availability of required natural gas to run the above gas projects and impending danger of paying huge fixed costs to the tune of Rs 1020 crores if these gas projects start commercial operation without having required supply of natural gas from ONGC/GAIL. Commission has already passed its order duly accepting the proposed amendments by APTRANSCO and private power developers. As the issue of non-availability of natural gas for the power projects has serious implications for the consumers of the state in terms of payment of huge fixed costs, we request the commission to review the above PPAs signed with these IPPs through public participation.

Allocation of PPA to Discoms:

4.1 Section 39 of Electricity Act, 2003 regarding State Transmission Utility states that, “ the State Government may notify the Board or a Government company as a State Transmission Utility, Provided that State Transmission Utility shall not engage in the business of trading of electricity:”

Pursuant to the enactment of EA 2003 , GOAP has notified APTRANSCO as State Transmission Utility (STU) as per S39(1) of the EA 03 vide its notification no.GOMS 114 dated 06.10.2003.

As a requirement under the provisions, the APTRANSCO has to divest its present ‘trading’ activity, which means that the Bulk Supply business, which primarily undertakes the trading function, is required to be split from the transmission function.

4.2 There are many ways this separation of trading activity from Transco can be achieved, viz.

1. by way of ‘Trading company’,
2. by way of ‘Allocation of generation capacities/vesting of PPAs to Distribution companies, and
3. allowing APGENCO to take up trading activity by vesting all the PPAs with it.

It appears that GOAP has chosen the second model, i.e. to transfer all the PPAs to Discoms.

4.3 The above arrangement has several disadvantages:

1. It would create imbalances among the discoms with regard to power demand and its availability based on allocations, as the power purchase requirements of individual discoms vary significantly from year to year. Any allocation based on historical trends would not reflect the reality.
2. Allocation of PPAs to Discoms also goes against the spirit of reforms for the following reasons.
 - a. Even though the reform process has the objective of achieving Multi-buyer model (MBM), allocation of long term PPAs among discoms would not result in achieving MBM in its true spirit. It would not in any way result in competition among discoms or lessen the burden on the consumers, as the payments made by the discoms to generators would be as per predetermined prices, based on the provisions of PPAs.
 - b. Also the very purpose of unbundling erstwhile APSEB into smaller companies to achieve functional specialization is also lost due to allocation of generating capacities/ transfer of PPAs to the discoms, as this would result in creation of several 'Mini State Electricity Boards', with the responsibility of both Generation and Distribution. Of late Discoms have shown tremendous improvement in revenue collections as they are concentrating only on revenue collections and improving consumer service and quality of service. Imposing the burden of several such PPAs would result in loss of focus of discoms from revenue collections and may deteriorate the situation.
3. Presently APTRANSCO is fighting several legal issues in the courts with several generators with whom it had signed PPAs. Also several legal complications might also arise in future as a result of exercise of review of PPAs taken up by the Government of AP. Allocation of PPAs to discoms might result in multiple agencies involved in fighting legal matters. It would be of great advantage if all these legal matters were handled by one entity, which also has expertise in handling such issues.
4. The 'imbalances' created in the system due to such allocation of generating capacities would necessitate creation of several new institutions to 'balance' such imbalances. This is totally unwarranted as it places unnecessary and avoidable burden on the consumers.

4.4 In view of the above all the PPAs may be transferred to APGENCO and allow it to sell the energy generated by its own generating stations and other generators to the DISCOMs. It may also be allowed to trade any surplus energy left out. The above arrangement will overcome all the disadvantages stated above in transferring PPAs to DISCOMs. Also as GENCO has previous experience in trading power (being the successor entity of erstwhile APSEB), transition would be very smooth. This arrangement would also give required time to DISCOMs to orient themselves to new

changes envisaged in Electricity Act'2003. At the same time caution should be taken that escrow provisions of these PPAs will not become a unbearable burden on APGENCO.

Prayer to the Commission:

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