

BEFORE THE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION * HYDERABAD

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 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. In spite of the prescribed formats there is no uniformity in the filing structure among the DISCOMs.

1.3 Even after four years accessibility of the filings in physical terms as well as content terms continues to be daunting. There is need to simplify the procedures and filings so that these are accessible to all. The tall claims about the IT initiatives of the Licensees continue. It was announced that the ARR is available on the net. But our experience shows that it is far from truth. The APEPDCL's website is nowhere to be seen. The search showed that it did not exist. In the case of APSPDCL instead of the 2004-05 ARR the current year i.e., 2003-04's ARR is placed on the website.

NEED TO ENCOURAGE GREATER PARTICIPATION

1.4 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.

1.5 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.

NEW TARIFF PROPOSALS

2.1 The public notice published on 27th December 2003 mentions that the current year tariff is proposed to be continued as it is for the ensuing year also with the exception of

LT Category V(B). But a comparison of this notice with the Commission's order shows that there are some more differences. These Include:

- a). LT III (B) Industrial: In the order it is 75 HP and above. In the notice it is above 75 HP and up to 150 HP.
- b). LT III (B) Seasonal: Seasonal tariff not mentioned in the notice.
- c). LT V (A): According to the order concessional metered tariff for three years is applicable if recommended measures are followed by 30th June 2003. But the date is not mentioned in the notification.
- d). HT I (a): In the order off seasonal rate is not mentioned, but it appears in the notice.
- e). HT IV Irrigation tariff: In the order for others tariff is Rs. 430/kva/month and in the notice it is Rs. 430/HP/Year

But these differences are not mentioned in the filings. Also, the implications of these changes are neither explained nor quantified in the filings.

AGRICULTURE:

DISCOM	2002-03		2003-04				2004-05	
	Actual		APERC Order		Present Estimate		Present Estimate	
	MU	%	MU	%	MU	%	MU	%
EPDCL	1200	20.39	1150	17.50	1172	18.4	1150	17.50
SPDCL	2834	29.64	2600	26.6	2585	26.7	2600	26.2
CPDCL	5584	32.4	4800	28.2	5235	29.5	5250	28.6
NPDCL	2851	38.03	2800	35.43	2711	36.08	2800	35.94
	12469	31.01	11350	27.49	11703	28.35	11800	27.68

3.1 According to the CPDCL's filings the sale to agriculture is expected to be higher than the Tariff order level (4800 MU) by 435 MU (at an expected sale of 5235 MU) on account of the unprecedented drought conditions.

According to the Tariff order the Licensees are expected to obtain the approval of the Commission if they supply more power beyond the limit set by the Commission. Whether the CPDCL obtained the permission of the ERC for excess supply of power to agriculture.

3.2 It is also difficult to comprehend the CPDCL's explanation "growth in agricultural consumption is also restricted to the quantum necessitated on account of additional services to be provided during the year as per GoAP policy for release of agricultural connections" (p.14). But the number of new connections are negligible. According to the filings only 5374 new connections are released. And these are under the TATKAL scheme. This small number cannot be expected to make any material change to the consumption figures.

3.3 Facts on the ground also show that the present as well as the projected agricultural consumption is not reliable, gives scope to believe that some of the T&D losses continue

to be added to the agriculture consumption to show 'efficiency improvements' achieved by the licensee. The CPDCL it self accepts that the supply of power is limited to 7 hours (p.63) instead of the 9 hours mentioned in the Tariff Order. It is difficult to accept that even after the reduction of supply by more than 20% the consumption still goes beyond the limit set by the Commission. As noted by the Licensee the year experienced unprecedented drought. This will result in lower consumption but not higher consumption as mentioned by the Licensee. Because of the low rainfall ground water level plummeted to very low levels leading to the drying up of many bore wells. This should lead to lower power consumption in the agriculture sector.

3.4 One of the reasons brought forth by the Licensee only help to show its bankruptcy of ideas. According to the filing, CPDCL avers, "May be the farmer limits the extent of cultivated land in view of insufficient water supply, but he runs the motor continuously as far as the 3-Phase supply is available" (p.63). In his/her own interest no farmer will do this, as they know very well that if motor is run in the absence of water in the well it will badly affect the motor/pump parts.

3.5 The fact that the Licensee's estimation of agricultural consumption is based on falsified figures is reflected in its own response to the Commission's Directive No.2. Their response to Directive No. 2 is contradictory(p.117). While in the first part they said that they are following the procedure set in the Tariff Order, in the second part they plead their inability to place the figures before the public.

3.6 The fact that the agricultural consumption is grossly over estimated comes out clearly from the projections made by the SPDCL (pages 66-69). According to the figure arrived at based on the DTR meters of the agriculture feeders during the current year 4,13,973 pump sets would be consuming 2612.725 MU of power. This implies that each pump set on the average will be consuming 6,311 U. It was also mentioned that during the current year metered agriculture consumption of the services released under Tarkal scheme is 30 MU. During the current year 9,321 connections were released under the Tarkal scheme. This implies that on the average each pump set would be consuming 3,219 U only. For the ensuing year also the Licensee estimates that the existing pump sets under the Tarkal scheme numbering about 25,383 would be consuming 85 MU. This implies that each pump set would be consuming 3,349 U only. This shows that the estimate of agriculture consumption by the Licensees is double the actual consumption. In other words T&D losses continue to be dumped on the agriculture sector and claim undue credit for the work not done. And continue to curse the farmers for all ills of the sector!

3.7 In this context we demand that the Commission direct all the Licensees to publish the energy consumed by all the metered agriculture pumpsets, both Tarkal connections and regular connections, for all the new connections outside the Tarkal scheme are also supposed to be metered. This will help to dispel the misgivings about the power consumption by the pumpsets.

3.8 Also, some agriculture connections exist under HT category also. All these connections should have meters. The details of the number of connections – government schemes, non-government connections, their HP/MW, power supply and consumption should also be published by all the DISCOMs.

3.9 We are apprehensive that the Licensee is using the inflated agriculture consumption figures to hide its inefficiency, and its failure to reduce T&D losses. Their inability to bring down the T&D losses to the limits set by the Commission speaks for this. They managed to contain distribution losses to 21.03% while the Commission set the target of 19.19%.

3.10 The filings of the Licensee show that they are taking steps to reign in agricultural consumption of power. These include installation of micro-processor based logic controllers on agriculture feeders (592 Nos. of 33/11 KV Sub-stations), converting 11 KV feeders to single phase (1005 Nos.), and implementation of HVDS system in place of conventional low voltage distribution system in the agriculture sector. We would like to know the magnitude of investments that have gone in to the implementation of these schemes and what are the results of implementation of these schemes.

3.11 Conversion to HVDS for agriculture sector also raises many other issues. Whether suitable motors and DTRs are available for taking up these scheme. What are the additional investments needed from the farmers' side? What are the lessons learnt in the past from the schemes already implemented in terms of supply of power under HVDS.

3.12 More than a year back the state government of AP appointed Agriculture Task Force with members drawn from the Government, Licensees, ASCI and some civil society organizations (GO Ms No.4, dated 7-2-2002). The Task Force was expected to come out with recommendations after suitable studies. We would like to know whether this Task Force suggested any alterations to the existing set up. Whether we can have a copy of the Task Force's report.

e-seva INITIATIVES

4.1 The Licensees are declaring the operation of e-seva with much fanfare (CPDCL p.41). But the question is how far these initiatives are economical? When under the existing practice each bill is being collected at the cost of less than one rupee why pay Rs. 5 per bill under e-seva. During the last years hearings we raised the same issue but we did not get any satisfactory response. We were told then that it will not burden the consumers. We fail to understand wherefrom they will get funds to pay for these. Is there any Government subsidy for this?

4.2 Under the existing system the collection agents are being paid 60 to 100 paise per one bill collection (collection agent will be paid one rupee for collection of one bill if total bill collection is more than 80% and 60 paise in bill collection is less than 80%). But

under the e-seva system Rs. 5 are paid for collection. Besides this the bi-monthly billing is converted to monthly billing. Because of this instead of one rupee or even less the Licensees are paying 10 rupees. In other words, hitec instead of bringing down the costs increasing the costs by more than 10 times.

4.3 Whether e-seva centers are dispatching the collection amount immediately. Whether there are any delays in payments by the e-seva service agencies. Whether the Licensees are incurring increased/additional expenditure to fill the gap/financial flows because of the delay in payments by the e-seva centers.

ARREARS:

REVEIVABLE FROM SALE OF POWER OF THE DISCOMs.

Rs in Crore

Year	2003	2004	2005
EPDCL	105.03	133.97	164.72
SPDCL	226.92	314.41	373.59
CPDCL	651.77	993.18	1363.75
NPDCL	380.78	490.23	606.52
Total	1364.50	1931.79	2508.58

PAYABLES OF THE DISCOMs

Rs in Crore

	2003	2004	2005
EPDCL	(0.62)	83	129
SPDCL	21	42	107
CPDCL	567	849	1011
NPDCL	165	197	204
Total	752	1,171	1,451

Arrears as on March 31, 2003 (Rs in Crores)

Particulars	EPDCL	SPDCL	CPDCL	NPDCL	Total
Total	86.88	NA	658.25	462.81	
LT	NA	NA	535.68	380.02	
HT	NA	NA	122.56	82.79	
>1 year	NA	NA	432.11	95.98	
Court cases	18.91	9.48	101.11	12.42	
Disconnected Servic	20.04	99.71	100.65	138.71	359.11
Central Govt	NA	30.21	58.63	50.77	

5.1 Comparison of the receivable with the payables of the DISCOMs show that receivables/arrears are more than payables. In the case of CPDCL it is more than Rs. 350

crore for the ensuing year. In the current year it is more than Rs. 140 crore. This gap is increasing year after year. Though CPDCL states that the collections match current year billings as mentioned above the fact is different – arrears are increasing. The gap has to be bridged by borrowings, which further goes to burden the consumers. The increasing interest payments of the DISCOMs is a result of this failure to collect the revenues due to them. Had they collected the dues from the consumers promptly debt burden could have been avoided.

5.2 An examination of the details of arrears given in the Filings show that a substantial proportion of the arrears are from HT consumers whose number is small and it should not have been difficult to collect the arrears. More than half of the arrears is due for more than one year.

5.3 Another reason shown for the arrears is that of court cases. The CPDCL in its filing claimed that arrears under court cases have been pursued and got disposed in favour of the Company and realization process is in progress. But the facts show otherwise. While according to the last year's filings amount due under court cases stood at Rs. 79.63 crore according to this year's filing it stands at Rs. 101.11 crore, an increase of more than Rs. 20 crores. Then reason for this should lie in the unwillingness to pursue the arrears seriously.

5.4 The above table shows that early Rs. 360 crores of arrears are from the disconnected services. We would like to know how the Licensees are planning to recover these arrears? The fact these arrears are more than the cases involved in court cases it may appear that the Licensees are not making any effort to recover these arrears.

5.5 According to the Guideline 11-g the Licensees are supposed to provide details regarding arrears of Rs. 50,000 and more. But no such information is provided in the filings. This information should include the names and addresses of the persons, organizations, companies whose arrears are Rs. 50,000 and more We again request the Commission to direct the Licensees to publish the list of the Consumers whose dues are more than Rs.50,000.

5.6 Along with this the information provided by different DISCOMs is not uniform. When the formats are the same we fail to understand why different kinds of data is provided. This inconsistent data do not lend to any meaningful analysis. In the case of SPDCL instead of total arrears net arrears are given. While the arrears amount against live services stands at Rs. 165.95 crores net arrears are only 18.36 crores. In the case of EPDCL there is no relation to the figures provided in the projects and the figures provided as a part of the Guideline – 11g. In the former it is Rs. 105.03 Crores, and in the latter it is Rs. 88.68 crores.

PROVISION FOR DOUBTFUL DEBTS

	Rs in Crore		
	2003	2004	2005
EPDCL	46.90	46.90	62.27
SPDCL	7.61	7.61	26.50
CPDCL	9.22	9.22	46.28
NPDCL	NA	NA	11.63

5.7 The treatment of doubtful debts is not clear from the filings. The CPDCL in its filing states, “Provisions for doubtful debts have not been made for the CY. However licensee has written off past debts for which provisioning had been made during earlier years. Accordingly for the EY provision for bad debt & doubtful debts has been estimated to the extent of 1% of the revenue, at Rs. 37.06 crores” (page 47). But this contradicts contents of the same filing. Table 17 on page 54 mentions the provision for doubtful debts sought by the Licensee. In the above passage it is mentioned that they have in the past already written off some of these debts. But the details of this are nowhere, in the past or at present, are mentioned. Similar is the case with the NPDCL. It did not mention the debts written off in the past though it mentions that it has set aside Rs. 11.63 crores towards doubtful debts, but regarding the current year and the previous year it did not mention any amount, but just mentions that it has written off significant amount of the past debts for which provisioning had been made in the transfer scheme. As we remember in the past the Commission has disallowed writing off of bad debts.

5.8 List of the consumers who are treated as doubtful debts should be made public.

5.9 The CPDCL in response to the Commission’s directive No.1 for the year 2002-03 it stated, “Chartered Accountant firms were appointed to conduct audit and give report on the quality of receivables of the Company. As per the report given by the auditors, an amount of Rs. 296.49 crores has to be written off. This amount is written off from the books in the Board meeting held on 4-12-2003. Further, the C.A. firms were asked to physically verify the services recommended for written off. This work is expected to be completed by 15.1.2004...” (p.114). This raises many questions. Did they obtain the permission of the Commission before writing off the receivables? This it appears is not done. While the decision to writ off the receivables is taken on 4-12-2003, the CA firms were asked to verify them by 15-1-2004. What is the use of this physical verification after the receivables are written off? The fact of this writing off and its implications are not mentioned in any other part of this years filing. Does not it has any impact on the finances and the tariff payable by the consumers?

Like CPDCL other DISCOMs also written off huge sums of receivables. NPDCL has so far written off an amount of Rs. 108.85 crore in two spells, and some more receivables may be written off as the work of auditing of receivables is still going on. EPDCL has written off Rs. 20.26 crores as doubtful debts, and this amount will increase as the audit work is not yet completed. In the case of SPDCL the audit is yet to be completed.

We request the Commission to direct the Licensee to make these audit reports public, and publish the names of the consumers whose written off receivable are more than Rs. 10,000.

5.10 CPDCL (p.172) mentioned that it has appointed agents for recovery of arrears. We would like to know what is the quantum of arrears recovered and the commission paid to the agents. We request the Commission to direct the Licensee to clearly state the figures involved.

5.11 Recently the GoAP announced cancellation of arrears of some of the poor households. What is the amount written off? Whether the GoAP compensated the DISCOMs towards this. Whether this is accounted for in the filings of either Transco or DISCOMs.

5.12 According to the Electricity Act 2003, 56 (2) "...no sum due from any consumer...shall be recoverable after the period of two years from the date of two years from the date when such sum became first due...". It is a fact that some of the arrears due to the Licensees are older than two years. Once the Central Act comes into force what will happen to these arrears? What will be its impact on the finances of the licensees and consumers in terms of tariffs?

T&D LOSSES AND CAPITAL EXPENDITURE

DISTRIBUTION LOSSES

DISCOM	2002-03		2003-04				2004-05	
	Actual		APERC Order		Present Estimate		Present Estimate	
	MU	%	MU	%	MU	%	MU	%
EPDCL	989	16.80	1049	16.0	1019	16.02	1019	15.50
SPDCL	2030	21.23	1901	19.43	1878	19.42	1838	18.50
CPDCL	3908	22.66	3271	19.19	3730	21.03	3519	19.2
NPDCL	1592	21.23	1608	20.34	1545	20.56	1519	19.50
Total	8519	21.19	7829	18.96	8172	19.79	7885	18.50

6.1 According to the above table the distribution losses declined by 1.4% between 2002-03 and 2003-04. During the ensuing year these losses are expected to decline by another 1.3%. But given the past experience this is difficult to expect. Licensees' delivery was always below their claims. Then if we take in to account the fact that projections of agriculture consumption continue to include distribution losses these losses should have been much higher.

6.2 We have to examine these distribution losses in the background of huge investments in improving (?) the distribution network. But given the above dismal performance the appropriateness of these expenditure is to be examined.

ASSETS ADDED DURING THE YEAR (Rs in Crores)

DISCOM	2003	2004	2005	Total
EPDCL	124.10	201.38	161.99	487.47
SPDCL	141.40	182.57	181.62	505.59
CPDCL	326.65	398.40	428.62	1153.67
NPDCL	116.07	194.09	134.73	444.89
Total	708.22	976.44	906.96	2591.62

6.3 According to an earlier claim of the Licensees Rs. 890 crore investment should lead to reduction of one percent in losses. Regarding the reduction in distribution losses achieved one of the licensees CPDCL explains, “ This is largely been possible on account of efficiency improvement measures such as a reduction in metering losses, theft by consumers, regulation of agricultural supply and improvement in the service provided to customers” (p.3). Then, what is the contribution of these capital investments improving the transmission and distribution network?

6.4 The Licensees also started to feel that negative returns started on the capital investments made. This naturally leads to the question of appropriateness and optimality of these investments. What is the money earned through improvements/investments and what is money outgo through depreciation and interest payments? The other question is whether the same works could have been achieved with lesser cost.

6.5 Then there are time over runs. In the filings it was mentioned that the Licensees were not able to spend the money/complete the work in time. This will add to the cost to be borne by the consumers. We would like to know the time over runs in the implementation of the capital projects and its contribution to the expenditure by way of increased interest payments, service payments, foregone services because the instruments were not installed and trial run in the stipulated time.

EMPLOYEE ISSUES

EMPLOYEE COSTS (Rs in Crores)

DISCOM	2003	2004	2005
EPDCL	100	119	131
SPDCL	179	191	203
CPDCL	229	244	267
NPDCL	118	131	138
Total	626	685	739

7.1 The above table shows that the cost towards employees is quite considerable and it is increasing. This will give a false picture that the strength of the employees is on the rise. But the fact is otherwise. According to the last year’s filings there is a huge gap between the sanctioned posts and the actual working. The Licensees have assured that

they will fill the vacancies. But no such thing took place, and exactly the opposite is taking place. The number of employees in the roles of these companies is coming down. According to the response of CPDCL to the Commission's directive No. 28 the average manpower deployment as on 30-9-2003 is 2.7 employees per 1000 services, as against the prescribed norms of 4 persons for 1000 services (p.126). The response to this is, "It is not contemplating any reduction in manpower in the promotional cadre posts. However in the initial recruitment level such as AEs, LDC, typist, LMD, Sub-engineers, JLM, all the existing/arising vacancies are not being filled-up as the workloads in certain areas are reduced due to outsourcing of certain activities..." (p.136).

7.2 The above response as well as the new practices being followed raises many issues: When the number of employees is declining how is it that the cost towards employees is increasing? Is it that a small number of people are churning away the cream at the cost of service to the consumers as there are no adequate number of employees to render necessary and adequate service? Is it the reason for the increasing arrears, breakdowns, unauthorized connections? Whether statutory work norms, like statutory minimum wages, are being followed. The recent tenders for the maintenance of the substations show that the amount quoted is not sufficient to pay the statutory minimum wages. Whether the Commission will allow such illegalities.

7.3 We also would like to know under what account the payment to outsourcing is shown?

7.4 In the filings CPDCL mentioned that e-seva is given the responsibility of collecting the cc bills reducing the workload on the employees in EROs. In this context we would like to know what are the payments being made by all the licensees towards e-seva and on what basis? How many employees in ERO are affected due to this and at present what are they doing? How expenditure on these employees relates to the payments made to the e-seva?

7.5 The CPDCL (p.127) mentions the absorption of RESCO in to its fold. While it mentions the initiative in terms of employees this does not figure in the revenues from purchase and sale of power as RESCO works differently. Its impact on income and ARR do not find any mention. We also learn that already five RESCOs are closed. When we raised this during the last years hearings they feigned ignorance. As far as the employees is concerned we would like to know what will happen to the existing employees? And whether there is any tripartite agreement between the employees, RESCO/DISCOM and the state government.

7.6 In the context of the changed policy of the Licensees we would like to know how many substations are being handed over to the private contractors for maintenance, and how many sub-stations are privatized?

INTEREST PAYMENTS:

INTEREST PAYMENTS BY DISCOMS (Rs in Crores)

DISCOM	2003 (Actuals)	2004 (APERC)	2004 (Estimate)	2005 (Projections)
EPDCL	35	51	67	66
SPDCL	90	82	103	101
CPDCL	132	130	187	199
NPDCL	74	78	93	90
TOTAL	331	341	450	456

8.1 The expenditure towards interest payments is increasing every year. Under the present financial markets where the interest rates are declined considerably the interest burden should have come down significantly. The Commission also advised Licensees to restructure the loans, swap the costly loans for cheaper ones. Instead of this the Licensees continue to pay higher interest loans. In the past they explained that the swapping chances have for them is not available as the given possibilities are used by the TRANSCO only, and as it is the TRANSCO which is organising the loans it seems it did not pay attention to the loans contracted by the DISCOMs. As the DISCOMs are supposed to be independent bodies answering for themselves shifting the blame will not help any one. It is high time they use existing opportunities to bring down the interest burden.

8.2 Some of the Licensees are carrying out the transmission works financed by the DFID of the United Kingdom. The DFID provides the funds for these under grants, not as loans. But the licensees show the funds from DFID under loans and also mention the interest rate. For example the CPDCL on p.83 mentions some of the works being carried out with the financial assistance of DFID, but on p.228 mentions it under loans and also mentions interest rate as 12.50%. We would like the Licensees clarify whether they are receiving DFID funds as grants or as loans.

PRAYER TO THE COMMISSION

We earnestly request the Commission

1. To take necessary steps to increase people's participation in the regulatory process.
2. To reduce consumer tariff in proportion to the reduction in BST.
3. To review capital expenditure of the Licensees.
4. To allow the petitioner to be heard in person before APERC takes any decision on this petition.

M. Thimma Reddy