To,	From,
The Secretary, A.P. Electricity Regulatory Commission, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	M. Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, First Floor, 1-9-291/6/1, Vidyanagar, Hyderabad – 500 044

Date: 31 -08-2012

Respected Sir,

Sub:- Submission of objections and suggestions on FSA claims of the APDISCOMs for the first quarter of 2012-13 – Reg.

Ref:- FSA claims of DISCOMs placed on the website of the Commission.

1.1 The proposals submitted by APDISCOMs as a part of their FSA claims for the first quarter of 2012-13 was placed on the Commission's website with the direction that consumers have to file their suggestions/objections by 31st August 2012. According to these proposals Rs. 2,165.98 crore is to be recovered from the consumers and the unit rate of FSA for this quarter will be Rs. 1.62/unit. Consumers were given just two weeks time to respond on such important issue. Given the amount of information involved to be examined and various issues raised along with variations in fuel costs this two weeks time is grossly inadequate to make any meaningful intervention on the part of consumers.

1.2 From the posting on the Commission's website it is not clear whether the Commission has admitted the DISCOMs' FSA filing and whether any number is given to the case.

1.3 The commission is expected to validate/scrutinize the submissions made by the DISCOMs for their validity and completeness before placing the same before the public. A preliminary look at the information provided as a part of FSA claims for 1st quarter of 2013 shows that this information has all the limitations that the previous filings suffered from. The information provided is not complete. From the given information it will not be possible to decided on the FSA claims of the DISCOMs. We doubt whether the Commission without further information and explanation from the DISCOMs will be able to pronounce its Order on this issue.

1.4 The information provided as a part the present FSA claim for the first quarter of 2012-13 does not measure up to the information made available with regard to the FSA claims for the previous years of 2010-11 and 2011-12. In the case of previous years also public had brought to the notice of the Commission inadequacies in the information provided by the DISCOMs. Consequent to this the Commission directed the DISCOMs to make additional information available to the public. Consequent to the previous experiences there should have been improvement in the quality of filings of DISCOMs. Also, the Commission as a proactive step should have directed the DISCOMs to place complete information before the public. It is depressing to remind the Commission as well as DISCOMs time and again that under the existing Acts they are duty bound to put in place transparent and economical power purchase process.

1.5 We request the Commission again to direct the DISCOMs to place all information related to their FSA claims before the public. In case 'all the information' is already placed before the Commission the same shall be made available to the public.

2.1 According to Section 62 (4) of the Electricity Act, 2003 "No tariff or part of any tariff may ordinarily be amended, more frequently than once in any financial year, except in respect of any changes expressly permitted under the terms of any fuel surcharge formula as may be specified". Fuel Surcharge Adjustment (FSA) is basically meant to handle fluctuations in fuel prices and change in fuel mix. By nature fixed cost is stable being decided at the time of plant execution itself. If at all there will be some changes in fixed cost it will be because of fluctuations in foreign exchange rate for the plants that have foreign exchange component.

2.2 Under the present FSA claims filed by DISCOMs a large proportion of claims are related to variations in fixed costs, that too of APGENCO plants which do not have any foreign exchange exposure. These inconsistencies in the filings of DISCOMs on FSA give rise to legitimate doubts on FSA burden proposed to be placed on the unsuspecting consumers in the state.

3.1 It is time the present exercise Fuel Surcharge Adjustment (FSA) is renamed as Fixed Cost Adjustment (FCA). Figures for the 1st quarter of 2012-13 show that variation in fixed cost and prior period expenditure (which is nothing but differed fixed cost recovery) together account for 62.1 percent of the FSA claim of DISCOMs for the first quarter of 2012-13. Prior period expenditure alone accounts for 56.81 percent of FSA.

Table:1 FSA Claims of APDICSOMs

Month	Variance in Variable Cost (Rs in Crore)	Variance in Fixed Cost (Rs in Crore)	Prior Period Expenditure (Rs in Crore)	Total (Rs in Crore)
April 2012	288.45	15.86	951.96	1256.27
May 2012	315.28	26.37	200.21	541.86
June 2012	217.10	72.34	78.42	367.86
Total	820.83 (37.90)	114.57 (05.29)	1230.59 (56.81)	2165.99 (100.00)

3.2 Out of prior period expenditure of Rs. 1,230.59 crore payments to APGENCO accounted for Rs. 1,165.46 crore. The explanations provided for such high spending is not clear. In the case of expenditure claimed for the month of April 2012 while in one column (column 4)it was mentioned that it was towards FCA for IVth quarter of 2012 in another column (column 2)it was mentioned as variable cost. In their earlier FSA claims for IVth quarter of 2012 (dated 27-04-2012)the DISCOMs have already claimed a variance in variable cost to the extent of Rs. 867.88 crore. If it was towards changes in variable cost what explains these additional charges? After the filing of their FSA claims for the IVth quarter of 2012 there was no change in the price of either coal or gas. In case this expenditure was towards variance in fixed cost DISCOMs need to explain under what provision of the PPAs they are claiming this expenditure. Here it is to be mentioned PPAs of the new units of APGENCO are not yet approved by the Commission. In the case of older units of GENCO also they were given only provisional approval by the Commission. This inordinate delay on the part of APERC in scrutinizing the PPAs with GENCO may be encouraging both GENCO and DISCOMs to claim unjustified amounts. It is high time the Commission takes its work seriously.

3.3 According to the present filings Rs. 201.75 crore were paid to NCE units. It is mentioned that this payment was in accordance with the orders of Supreme Court and Appellate Tribunal. But they did not mention the specific orders from these institutions. For, there are so many orders on issues related to NCE units.

Merchant plants of Lanco and GMR

4.1 During the first quarter of 2012-13 DISCOMs purchased 477.85 mu from merchant plants of Lanco and GMR at a cost of Rs. 244.12 crore. Its average purchase cost was Rs. 5.12/unit. These two plants were given gas supply from KG basin even when the gas based power plants which have concluded PPAs with DISCOMs, including earlier units of both Lanco and GMR, are running at less than 40% PLF. If the gas that was supplied to these merchant plants were provided to the plants that have concluded PPAs the burden on consumers should have come down considerably. As these plants are already paid fixed costs only variable/fuel cost need to be paid to them. The variable/fuel cost per unit for these gas based power plants is Rs. 1.85. If this gas was made available to these units total additional purchase cost would have been Rs. 88.40 crore only. This implies that by diverting gas to merchant plants Rs. 155.72 crore additional burden was placed on the consumers in the state. KG basin gas was diverted to these two merchant plants on the recommendation of the GoAP. Then it is logical to demand that this additional burden of Rs. 155.72 crore shall be borne by the state government and the same shall not be placed on the consumers in the state.

Fuel issues

5.1 DISCOMs are claiming Rs. 820.83 crore towards increase in fuel purchase costs for the first quarter of 2013. The filings of DISCOMs on FSA do not throw any light on this issue. As the exercise itself is named as fuel surcharge adjustment there should have been at least some information on fuel related issues. Information that was made available on fuel related issues during the previous FSA claims is not made available this time. We request the Commission to direct the DISCOMs to provide all information related to fuel costs to the public.

5.2 There were complaints of serious irregularities in procuring and utilization of coal in APGENCO. It was alleged that even when imported coal was available in the range of Rs. 4795 to Rs. 3688 per tonne it was purchase at the rate of Rs. 5532 per tonne. A consignment of imported in 2011 was said to have led to additional cost of Rs. 325 crore because of this high cost coal purchase. It was also alleged that proper method was not followed in procurement of the imported coal. Even when the contract to import coal was with a public sector unit in fact it was purchased from private sector Essar firm. This change in the importing firm also leads to doubts about the genuineness of the imported coal procurement. The Commission needs to thoroughly examine the procurement and utilization of imported coal.

5.3 There are also unconfirmed reports that substantial quantities of coal supplied to APGENCO were diverted to open market by unscrupulous elements in the public sector firm. But this quantity of coal was shown as having been used in the plants. It is no wonder that substantial proportion of FSA claims is related to present and previous quarters' variable costs of APGENCO.

5.4 DISCOMs' claims to recover staggering amounts of money through variation in variable costs and prior period expenditure of previous quarters even when there was no change in fuel prices lead to legitimate doubts about their claims. We request the Commission to thoroughly verify the FSA claims of DISCOMs.

6.1 Decline in hydel generation may be one of the reasons for the FSA burden. Again there is difference in the number of units to be generated by hydel units in the state. DISCOMs quoted higher quantum of hydel power availability than approved by the APERC in its Tariff Order for the year 2012-13. As this implies a change in fuel mix it also will have impact on FSA.

Table:2 Variations in Estimation of Hydel Generation

Month	Estimated Hydel* Generation - Tariff Order (mu)	Estimated Hydel Generation Quoted by DISCOMs (mu)	Actual Generation (mu)
April 2012	291	366	162
May 2012	176	221	170
June 2012	171	215	143
Total	638	802	475

*Page No. 236 of the Tariff Order dated 30th March 2012.

7.1 According to the Regulation of FSA number of units approved by the Commission in its Tariff Order only shall be taken for calculating FSA. In their FSA claims for the first quarter of 2012-13 the DISCOMs have taken in to account instead the actual units consumed. While the Commission approved 20,966 mu for the first quarter of 2012-13 the DISCOMs claimed actual consumption to be 21,099 mu. While the DISCOMs need to recover the cost of all units consumed the Regulation allows only the units approved by the Commission in the Tariff Order. The Commission needs to examine this issue.

7.2 Under the existing method of calculating FSA the total FSA burden is distributed equally among all consumer categories and also within each category irrespective of the slabs in each category. According to the present FSA proposals burden on each unit of power consumed will be Rs. 1.62 per unit. It is the same for a domestic consumer in 0-50 units slab who pays Rs. 1.45 per unit and a domestic consumer in more than 500 units slab who at present pays Rs. 7.25 per unit. High cost additional power purchases were because of higher power consumption by the consumers in the higher slabs. But according to the existing Regulation they bear the same burden as that of a poor consumer. This is unfair and unjustified. Poor households have to bear the burden of rich households' extravagant consumption. FSA shall not be uniform for all consumers. It shall take in to accounts the consumption pattern of electricity. Who consume more shall be made to pay more, not the other way round. Since FSA is treated as differed tariff, the principles applied for determining tariff to different categories/slabs of consumers should be applied to FSA also.

I request the Commission to provide us an opportunity to be heard in person during the public hearing, whenever the Commission decides to hold a public hearing on the above FSA claims of DISCOMs.

Thanking you,

Yours sincerely,

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