To,	From,
The Secretary, T.S. Electricity Regulatory Commission, 5th Floor, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	M. Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, 139, Kakatiyanagar, Hyderabad – 500 008

Date: 26-01-2020

Dear Sir;

Sub: - Suggestions on ARR and Wheeling Tariff Proposals of TSDISCOMs for the 4th control period of 2019-20 to 2023-24

Ref: - OP Nos: 9 and 10 of 2019 and the Public Notice dated 29-12-2019

1. In response to the above communication we are submitting the following suggestions on ARR and Wheeling Tariff Proposals of SDISCOMs for the 4th control period of 2019-20 to 2023-24 for consideration of the Commission.

Information gaps:

2.1 According to Regulation 4 of 2005 as part of ARR and FPT filings information related to base year and each year of the Control Period needs to be provided. In the case of operation and maintenance (O&M) costs information related to the base year and year prior to the base year in complete detail together with the forecast for each year of the Control Period shall be provided (Clause 6.3). Base year information is not provided in the case of several items. In the case of O&M costs while information related to the base year and also year prior to the base year in complete detail is expected to be provided no such information is made available in the present filings.

2.2.1 According to Clauses 9.1 and 9.2 of Regulation 4 of 2005 the DISCOMs shall file a Resource Plan, containing Sales Forecast, Load Forecast, Power Procurement Plan and a Distribution Plan (Capital Investment Plan), on 1st April of the year preceding the first year of the Control Plan and the Commission shall approve it as per Guidelines on it. According to Clause 6.3a of this Regulation Capital Investment Plan with capitalisation schedule covering each year of the Control period shall be consistent with the Commission's approved Resource Plan.

2.2.2 TSDISCOMs in their filings claimed that their submissions are in consonance with the Resource Plan for the 4th Control Period. For example, TSSPDCL claims as follows:

"As detailed in the Resource Plan, the Distribution Plan is prepared considering all the network elements required for system expansion to cater to the load growth and network strengthening." (Para 2.1)

"As detailed in the Resource Plan Filings, the capital investment required for each element of network projections for 4th Control Period (FY2019-20 to FY2023-24) is estimated…" (Para 2.2)

"In addition to the Base capital Expenditure Plan, the DISCOM has also submitted Other Capital Expenditure Plan in its Resource Plan filings which inter alia contains expenditure plan for AT&C Loss reduction, Reliability improvement, contingency measures, Renovation & Modernisation of existing assets, network additions for new consumer additions, Technology up-gradation, civil infrastructure development." (Para 2.3)

"The total capital Expenditure projections as submitted in the Distribution Plan in the Resource Plan filings which is being adopted in the current filings to arrive at ARR for the MYT for 4th Control Period filing…"(Para 2.4)

2.2.3 TSDISCOMs also claimed as follows:

"In accordance to Clause 9 of APERC Regulation 4 of 2005 as adopted by TSERC vide Regulation No. 1 of 2014, the Distribution licensee has filed Resource Plan for the Fourth control period i.e. from FY 2019-20 to 2023-24 which inter alia contains Sales Forecast, Distribution loss trajectory, Load Forecast and Distribution Plan as per the guidelines for the approval of the Hon'ble Commission on 31.10.2018. As the Hon'ble Commission's approval is still awaited, the licensee adopts the Distribution Plan submitted in the Resource Plan filings in the current Multi-Year and Annual filings."

2.2.4 As the present ARR and FTP are based on the Resource Plans of the TSDISCOMs it will not be possible to assess the ARR and FTP without access to the Resource Plans filed by the TSDISCOMs. In the present filings TSDISCOMs have only provided summary figures. We request the Commission to direct the TSDISCOMs to make these Resource Plans related to 4th Control Period available to the public.

2.2.5 The above Regulation also mandates that the ARR is consistent with the Commission's approved Resource Plan (Clause 6.3a). It implies that the Resource Plan in question needs to be approved by the Commission prior to the ARR and FTP. We request the Commission to conduct a public process to approve the same given its importance in the overall tariff setting.

Electricity Load during 4th Control Period (MW)

DISCOM	2019-20	2020-21	2021-22	2022-23	2023-24
NPDCL	2,829	2,940	3,043	3,145	3,248
SPDCL	7,428	7,898	8,230	8,540	8,863
Total	10,257	10,838	11,273	11,685	12,111

3.1 The above table shows that during the 4th control period total electricity load at 33 kV level (including losses) in Telangana is projected to increase by 18.08%. While in the case of NPDCL it is projected to increase by 14.81% in the case of SPDCL it is 19.28%.

Distribution network expenditure during 4th Control Period (Rs. In Crore)

Tear	DISCOM	Base capital expenditure	Employee cost	R&M cost	ARR transferred to Retail supply business
2019-20	NPDCL	849	1,859	94	2,614
	SPDCL	1,107	2,469	161	3,935
	Total	1,956	4,328	255	6,549
2020-21	NPDCL	1,300	2,130	118	3,153
	SPDCL	1,175	2,699	192	4,465
	Total	2,475	4,829	310	7,618
2021-22	NPDCL	1,515	2,447	145	3,825
	SPDCL	1,590	2,978	214	4,927
	Total	3,105	5,425	359	8,752
2022-23	NPDCL	2,093	2,894	176	4,649
	SPDCL	1,977	3,328	240	5,544
	Total	4,070	6,222	416	10,193
2023-24	NPDCL	1,939	3,319	213	5,555
	SPDCL	2,102	3,704	273	6,250
	Total	4,041	7,023	486	11,805

3.2 During the 4th Control Period distribution expenditure (ARR transferred to retail supply business) is projected to increase by 80.26% in Telangana. When compared to the growth in electricity load in the state it is nearly 5 times higher. The increase in distribution expenditure includes 62.27% increase in employee costs, 90.59% increase in R&M costs and 106.60% increase in base capital expenditure.

3.3 The rate of growth in distribution expenditure is even more pronounced in the case of NPDCL. While electricity load is projected to increase by 14.81% during the 4th Control period in NPDCL's jurisdiction distribution expenditure is projected to increase by 112.51%. That is, growth in distribution expenditure in the case of NPDCL is more than 7 times higher than growth in electricity load. The growth in distribution expenditure in NPDCL area includes 78.54% increase in employee costs, 126.60% increase in R&M costs and 128.39% increase in base capital expenditure. As the new distribution network is being designed to transmit newly created electricity load there shall be some relation between the growth in electricity load and growth/expansion of distribution network. The Commission needs to see that the distribution expenditure during the 4th Control Period is undertaken according to prudent norms.

3.4 More than Rs. 12,000 Crore were reported to have been spent in Telangana during 2017-18 to improve distribution network to facilitate 24 X 7 power supply to agriculture sector in the state. When such high expenditure was incurred in the recent past to improve distribution network in the state the new proposals on distribution network expansion needs to be assessed more carefully.

3.5 When the issue of disproportionate expenditure on distribution business is raised Licensees tend to argue that the capital expenditure involves not only expenditure towards augmenting the existing network to meet peak demand but also involves works for network strengthening, renovation and modernisation, etc,. In the present filing works related to network strengthening and R&M appear under different heads like Other Capital Expenditure as a part of total capital expenditure, R&M works as a part of O&M expenditure and Special Appropriation for Safety Measures. It has to be seen that there is no duplication of work and expenditure incurred has impact on the ground.

3.6 TSDISCOMs propose automation at different levels. Its impact on staffing costs need to be examined.

4.1 In the present filings Licensees have considered cost of debt as 11% for long term loans and 11.5% for working capital loans during the 4th Control Period. As rate of interest in the financial markets in the country is coming down the rate of interest proposed by the Licensees appears to be on higher side. APERC in its Order, one year back, on wheeling charges for the 4th Control Period adopted 10.53% as rate of interest on debt contracted by APDISCOMs. In the meantime, RBI reduced the repo rate several times. In keeping with these developments, we request the TSERC to adopt lower interest rate than the one proposed by TSDISCOMs.

4.2 The present filings show that the TSDISCOMs are expecting Return on equity at 14% for the 4th Control period as per the approved norm for the third control period. Return on equity is linked to the rate of interest. As the rate of interest is coming down return on equity also needs to be reduced and brought down to below 14%. As there is no risk to the DISCOMs in this regard and total costs are being recovered under the present Regulatory framework we propose return on equity at 12%.

4.3 In SPDCL filings while on page 14 escalation factor is mentioned as 4.68% on page 29 escalation factor is mentioned as 5.42% while claiming to follow identical methodology. We request the Commission to adopt 4.68% as the escalation factor to compute capital cost.

Targets for distribution losses:

5.1 The distribution losses projected by TSDISCOMs for the 4th control period in some cases are higher than that approved by the Commission for the third control period or equal to the levels already achieved during the third control period. In the case of SPDCL the Commission approved 5% LT losses for the 3rd Control Period. But SPDCL has shown that it had achieved 6.05% LT losses during 2018-19 and projected to bring down these losses to 5.93% to 5.47% during the 4th Control Period. Similarly, while the Commission prescribed 4.25% 11 kV losses SPDCL achieved 4.70% in 2018-19 and projected to bring it down to 4.47% in 2023-24. NPDCL projected to bring down distribution losses by 0.01% only at the end of the 4th Control period compared to the levels achieved in 2018-19. Given the huge investments made in expanding and strengthening of distribution network and human resources there should be commensurate reduction in distribution losses.

Safety issues:

6.1 Over the years number of deaths due to electrocution have been increasing. Sagging conductors, unsafe DTRs and absence of technical help at the grass roots level are some of the important reasons for these avoidable deaths. It is welcome measure that the DISCOMs have designated officers at the Circle level as Safety Officers. Along with this, it has to be seen that capital investments made and R&M works taken up results in decline in deaths due to electrocution. All these years though thousands of crores of rupees were spent on expansion and modernisation of T&D network there was no let up in the deaths due to electrocution.

6.2 In safety related issues along with investments on T&D network staffing patterns also play an important role. In rural areas there is lack of technical staff at the ground level. In the absence of adequate number of line men in rural areas consumers, mostly farmers, are trying to attend to the repairs to the DTRs and conductors on their own and meeting with accidents. While officer level posts are being filled up there are vacancies in the case of technical staff at the ground level, particularly in rural areas. While examining O&M costs staffing pattern also needs to be examined.

6.3 In response to the Commission's directive to run neutral wire from 33/11 kV SS to single phase transformers both existing and new installations without resorting to use of earth as return conductor TSDISCOMs submitted as follows: "Since the hamlets are spread over at distant places, running a neutral wire from 33/11 kV Sub-station is very expensive. Further, earthing of neutral at intermediate locations, needs additional expenditure. Hence, it has been decided to provide local ground earthing by maintaining the earth resistance as per REC construction standards." At the same time SPDCL as a part of Special Appropriations for Safety Measures proposed Rs. 4 crore each year of the 4th Control period towards running of neutral wire from SS. NPDCL proposed about Rs. 7 crore each under Other heading. This may be towards running of neutral wire from SS. The Commission has to see that its directive on running neutral wire is complied with by TSDISCOMs strictly.

7.1 Non-transparent erection of substations, transmission towers and drawing of transmission lines is leading to consternation among farmers from whom huge chunks of land is being acquired for these installations. Farmers are not being compensated adequately, as allowed under the existing rules and regulations. Farmers are being made to run from pillar to post to claim their legitimate compensation. The central government rules have empowered the Commission to see that farmers get adequate compensation with in time. The Commission is requested to see that farmers are not harassed and that they get their compensation at the earliest.

8.1 Following the norms set by the Regulation 4 of 2005 True up of distribution business of Licensees of the 3rd control period has to be taken up. According to TSSPDCL annual accounts for base year [2018-19] have been finalised (p.iv para 13). As the necessary information is available with the DISCOMs we request the Commission to direct the TSDISCOMs to file true up/down claims for the 3rd control period.

9.1 We request the Commission to take our submission on record and allow us to be heard in person before the Commission takes a decision on the applications of the TSDISCOMs.

Thanking you.

Sincerely yours,

M. Thimma Reddy

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To,	From,
The Secretary,	M. Thimma Reddy,
T.S. Electricity Regulatory Commission,	Convenor, People's Monitoring Group on
5th Floor, Singareni Bhavan, Red Hills,	Electricity Regulation,
Lakdi ka pool,	139, Kakatiyanagar,
Hyderabad – 500 008	Hyderabad – 500 008

Date: 06-02-2020

Dear Sir;

Sub: - Supplementary submission on ARR and Wheeling Tariff Proposals of TSDISCOMs for the 4th control period of 2019-20 to 2023-24

Ref: - OP Nos: 9 and 10 of 2019 and the Public Notice dated 29-12-2019

1.1 While TSNPDCL claimed Rs. 83 Crore towards true up for the 3rd Control Period TSSPDCL claimed Rs. 1,301 Crore towards true up for the 3rd Control Period. As investment pattern for both the DISCOMs is similar true up claim of TSSPDCL appears to be exorbitant and the same to be closely scrutinised.

2.1 Regarding higher expenditure proposed during the 4th Control Period both the DISCOMs have provided annual O&M expenditure growth rate during the 3rd Control period and argued that expenditure proposed during the 4th Control Period is in keeping with the past experience. Here it is relevant to mention that during the 3rd Control Period O&M expenses were higher due to regularisation of contract workers and wage revision. This one-time experience cannot be used to estimate expenditure during the ensuing 4th Control Period.

Growth Rates (%)

Year	Electricity Load	Base capital expenditure	Employee cost	R&M Expenditure
2020-21	5.36	26.53	11.58	21.57
2021-22	4.01	25.45	12.34	15.81
2022-23	3.65	31.08	14.69	15.88
2023-24	3.65	-0.71	12.87	16.83

2.2 Comparison of annual growth in electricity loads with annual growth in different expenditure items projected in the DISCOMs' filings will help to place the issue in a perspective. The above table helps to compare growth rates in electricity load with important items of expenditure during the 4th control period. Growth in base capital expenditure during the 4th Control Period is four to eight times higher than growth in electricity loads. Growth in employee costs is two to four times higher than the growth in electricity loads. Similarly, growth in R&M expenditure is three to four times higher than the growth in electricity loads. As the proposed expenditure growth is several times higher than anticipated growth in electricity loads it is important to ensure that expenditure to be incurred is according to prudent norms and electricity consumers in the state are not to be burdened with excess and wasteful expenditure.

3.1 In the present filings Licensees have considered cost of debt as 11% for long term loans and 11.5% for working capital loans during the 4th Control Period. As rate of interest in the financial markets in the country is coming down the rate of interest proposed by the Licensees appears to be on higher side. APERC in its Order, one year back, on wheeling charges for the 4th Control Period had adopted 10.3% as rate of interest on debt contracted by APDISCOMs (p.67). TSERC in its Order dated 19-06-2017 on determination of capital cost and generation tariff of SCCL's 2 X 600 MW power plant had adopted 9.21% as rate of interest (para 4.8.2). TSSPDCL in its True up filings for the 3rd Control Period has mentioned that during one of these years of this Control Period cost of debt was as low as 8.45% (p.13). It was less than that approved by the Commission (11%). In the meantime, RBI reduced the repo rate several times. In keeping with these developments, we request the TSERC to adopt lower interest rate than the one proposed by TSDISCOMs.

3.2.1 The present filings show that the TSDISCOMs are expecting Return on equity at 14% for the 4th Control period. In support of their stand DISCOMs quoted from the National Tariff Policy, "The rate of return notified by CERC for transmission may be adopted by the State

Electricity Regulatory Commissions (SERCs) for distribution with appropriate modification taking in to view the higher risks involved...” As revenues of the DISCOMs are guaranteed through tariffs and true up as allowed by the Commission DISCOMs do not face any risk to their investments and there is no need to provide any allowance towards risk mitigation though higher return on equity.

3.2.2 Return on equity is linked to the rate of interest. As the rate of interest is coming down return on equity also needs to be reduced and brought down to below 14%. As there is no risk to the TSTRANSCO in this regard and total costs are being recovered under the present Regulatory framework we propose return on equity at 12%.

4.1 In the case of distribution losses TSDISCOMs wanted to adopt “relaxed” levels and not “desired” levels quoting Clause 5.3 (h) (2) of the National Tariff Policy, “In cases where operations have been much below the norms for many previous years the initial starting point in determining the revenue requirement and improvement trajectories should be recognised at “relaxed” levels and not the “desired” levels.” Relaxed levels might have been relevant in the year 1999 when reforms in the electricity sector were introduced but not in 2020 after two decades of reforms and after pumping thousands of crores of rupees in to strengthening the distribution network in the state. In the background of two decades of investments in the electricity distribution network in the state we request the Commission to adopt lower distribution losses.

5.1 We request the Commission to take our above submissions on record.

Thanking you.

Sincerely yours,

M. Thimma Reddy