

To, The Secretary, T.S. Electricity Regulatory Commission, 5 th Floor, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	From, M. Thimma Reddy, Convenor, People’s Monitoring Group on Electricity Regulation, 139, Kakatiyanagar, Hyderabad – 500 008
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Date: 10-01-2020

Dear Sir;

Sub: - Comments on TSTRANSCO’s filing for determination of ARR and tariff for transmission business for the period of 2019-20 to 2023-24

1. The following are our comments/suggestions on TSTRANSCO’s filings on Aggregate Revenue Requirement (ARR) and Filings for Proposed Tariff (FPT) for the 4th Control Period (FY 2019-20 to FY 2023-24) dated 30th November, 2019.

2. Telangana State transmission licensee TSTRANSCO in its ARR and FPT for the 4th Control Period (2020-24) at several places has mentioned that load forecast and resource plan for 4th control period was already submitted to the Commission and the proposed ARR is based on these load forecast and resource plan. The following extracts are evidence to this claim:

“Resource Plan for the Fourth(4th) Control Period: As per clause 9 of the Regulation No.5 of 2005 (Determination of Transmission Tariff), the Resource Plan for TSTRANSCO was filed before the Hon’ble Commission.” (p.9, para 13)

“The licensee has prepared a detailed investment plan for 4th control period (FY 2019-20 to FY 2023-24) based on Resource Plan submitted to the Hon’ble TSERC by making comprehensive analysis of Transmission Network existing in the state and load conditions / growth in the ensuing five years at 765kV/400kV/220kV and 132kV voltages.” (p.12)

“In compliance with the Clause 9 of APERC Regulations on Terms and Conditions for Determination of Tariff for Transmission of Electricity (Regulation No. 5 of 2005) as adopted by TSERC, TSTRansco already submitted the Resource Plan comprising of Transmission load forecast and Capital Investment Plan for the 4th and 5th Control Period. “(p.29, para.3)

From the above extracts it is clear that the present ARR proposals are based on the load forecast and resource plan for the 4th control period already submitted to the Commission. It is needless to mention that an examination of the documents related to load forecast and resource plan is very important to assess ARR for the 4th control period. But these load forecast and resource plan are not made available to the public by TSTRANSCO along with its ARR and FPT filings for the 4th control period. We request the Commission to direct the TSTRANSCO to make load forecast and resource plan for the 4th and 5th control periods available to the public immediately.

3. The past experience shows that the electricity utilities in the state tend to overestimate the electricity loads, particularly peak load in the state. The same applies to the present ARR

and FPT filings also. A summary of peak load during each year of the 4th control period is provided through Table 7 (a) on page 30 of the present ARR and FPT filings by TSTRANSCO. According to this Table peak demand for the year 2019-20 (current year) is projected to be 15,240 MW. Newspaper reports mentioned that highest peak demand during this year until now was 11,703 MW recorded on August 30, 2019. On December 27, 2019 peak demand of 11,182 MW was recorded. This demand is expected to reach about 13,000 MW by the end of this year. (The Hindu – 29-12-2019; Andhra Jyothi – 28-12-2019) This shows that peak demands arrived at in the load forecasts of TSTRANSCO are over estimated by about 20%. This past experience demand a thorough examination of load forecast and resource plans of TSTRANSCO for the 4th control period.

4. According to TSTRANSCO's ARR for the 4th control period (p.14) transmission contracted capacity is expected to increase from 15,235 MW in the first year of the control period to 21,114 MW in the final/fifth year of the control period. In other words, contracted transmission capacity is expected to increase by 38.59% during the 4th control period. During the same period ARR of transmission business is expected to increase from Rs. 2,012.08 Crore to Rs. 4,274.77 Crore, registering an increase of 112.46%. According to this ARR growth in transmission expenditure during 4th control period is three times higher than the growth in transmission capacity proposed to be contracted. From this it is quite evident that aggregate revenue requirement for the 4th control period is over estimated. If we take in to account that peak demand in load forecast of TSTRANSCO is already overestimated the proposed increase in ARR appears to be inflated beyond imagination. Here it is also important to note that the true up/down of transmission costs for 3rd control period has shown that TSTRANSCO has surplus of more than Rs. 1,000 Crore. This is nothing but overestimation ARR during the 3rd control period. We request the Commission to see that this overestimation of transmission ARR is not repeated during the 4th Control period.

5. TSTRANSCO proposed transmission losses in the range of 3.21% to 3.25% during the 4th control period (p.9, Para 13 b)) even when transmission losses reached 2.85% in 2018-19 (3rd control period). TSERC in its transmission tariff order dated 1-5-2017 stipulated transmission loss of 3.10% during the year 2017-18 and 3.09% during the year 2018-19. Adopting high transmission losses range as proposed by TSTRANSCO for the 4th control period would lead to higher expenditure/ARR that can be avoided. We request the Commission to adopt 2.85% as transmission losses during the 4th control period.

6. Non-transparent erection of substations, high voltage transmission towers and drawing of high voltage 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.

7. We request the Commission to take our above submissions on record and allow us to be heard before the Commission takes a decision on the application of TSTRANSCO

Thanking you.

Sincerely yours,

M. Thimma Reddy

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To, The Secretary, T.S. Electricity Regulatory Commission, 5 th Floor, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	From, M. Thimma Reddy, Convenor, People’s Monitoring Group on Electricity Regulation, 139, Kakatiyanagar, Hyderabad – 500 008
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Date: 07-02-2020

Dear Sir;

Sub: - Supplementary comments on TSTRANSCO’s filing for determination of ARR and tariff for transmission business for the period of 2019-20 to 2023-24

True up 3rd control period:

1.1 Variation in O&M expenses: For the 3rd Control Period O&M expenses were higher by Rs. 54.24 Crore compared to the O&M expenses approved by the Commission. TRANSCO attributed higher O&M costs to wage revision with effect from 1.4.2018. In that case O&M costs should have been higher only during the last year of the 3rd Control period i.e., 2018-19. A look at the information provided by the Licensee (Table 1, p.21) shows that except during 2017-18 during all other years O&M expenses were higher than that approved by the Commission. In fact, in 2016-17 increase in O&M costs (Rs. 71.73 Crore) was higher than increase in O&M costs in 2018-19 (Rs. 52.02 Crore). Factors other than the wage revision must have led to these higher O&M expenses. The same need to be scrutinised.

1.2.1 Variation in depreciation: Table 4 (p.24-25) shows that ‘depreciation during the year’ for the 3rd Control period was less than the Commission’s approved limit by Rs 250.21 Crore. But Table 2 (p.22) shows that during the 3rd Control Period depreciation was higher by Rs. 91.47 Crore. While the figure in Table 4 is used to calculate Return on Capital Employed (RoCE) the figure in Table 2 is used in calculating ARR deviation (Table 6, p.27-28). If the figure mentioned in Table 4 is used in calculating deviation in ARR surplus would have been higher by Rs. 341.68 Crore (Rs. 250.21 Crore + Rs. 91.47 Crore). As the value of assets during the 3rd Control Period is lower by Rs. 8,146.74 Crore compared to the asset value allowed by the Commission the figure in Table 4 shall hold good. Normally, depreciation figure at both these places shall be similar. For example, ‘Depreciation during the year’ in Table 20 (b) [related to RoCE] and ‘Depreciation’ in Table 22 [related to ARR for 4th Control Period] are identical. Based on these, we request the Commission to examine the difference between the numbers related to depreciation as mentioned in Tables 2 and 4 related to true up of 3rd control period.

1.2.2 Table 2 (p.22) shows that while during the first 3 years depreciation was less than the approved limit it was higher during the last two years. Particularly during the last year of the control period (2018-19) it was higher by 39.49%. No reasons were adduced for the higher expenditure towards depreciation.

1.3 In the case of true up of taxes on income TSTRANSCO claimed Rs. 27.50 Crore higher than that allowed by the Commission. TSTRANSCO has explained, “Tax on income was calculated at current rate of Minimum Alternate Tax (MAT) on the Return on Equity @ 14% on 25% of actual Regulated Rate Base.” (p.23) The issue is: did they really pay this tax? TSDISCOMs in their true up petitions have shown that they did not pay this tax even though the Commission had allowed, so they did not claim any amount towards tax on income.

1.4 ARR true up for the 3rd Control Period shows that total revenues were higher by Rs. 691.14 Crore compared to the revenue approved by the Commission. While revenue from tariff was higher by Rs. 505.98 Crore non-tariff income was higher by Rs. 185.16 Crore. These higher revenues had accrued even when consumer contributions during the 3rd Control Period were lower by Rs. 7,322.12 Crore (Table 4, p.25), an indication that power demand was lower than that projected. It would have been better if the Licensee had explained the reasons for these higher than projected revenues as it holds lessons for the exercise on the 4th Control Period.

2.1 TSNPDCL during the public hearing on TSDISCOMs' ARR and FPT of distribution business for 4th Control Period held on 06-02-2020 in its presentation mentioned that peak demand in the state on 31-12-2019 was 11,703 MW. This also points to the need to re-examine TSTRANSCO's peak demand projections for the 4th Control period.

2.2 Table 4 (p25) shows that total consumer contributions during the 3rd Control Period were lower by Rs. 7,322 Crore and 'additions to consumer contributions' annually during this period were lower by Rs. 2,661.68 Crore compared to the Commission's approved figure. This indicates that power demand during the 3rd Control period was lower than that projected. This experience needs to be taken in to account while estimating power demand during the 4th Control period.

2.3 Table 7 (p.29) shows generation capacity additions during the 4th Control period. This Table does not show renewable energy capacity additions and as such it provides a partial picture as far as new generation capacity additions are concerned. As the cost of solar power is coming down compared to coal based thermal power more solar power capacity is going to be added. Also, there are calls for phasing out old coal based thermal power plants due to higher carbon emissions. All these factors need to be taken in to account while figuring out generation capacity during the 4th Control period.

3.1.1 In response to our comments on disproportionate increase in transmission network costs TSTRANSCO replied, "the cost of network addition depends on ... technology adopted like many GIS substations and underground cables CKM are added in this control period whose cost varies 2.5 to 3 times over conventional technology, ever increasing land costs, ROW costs, employee costs etc." A perusal of TSTRANSCO submission shows that out of 4 Nos. of new 400 kV sub-stations only one is proposed to be GIS SS, out of 16 Nos. of new 220 kV sub-stations only two are proposed to be GIS SS, out of 43 Nos. of new 132 kV sub-stations two are proposed to be GIS SS. Can such a small number of GIS SS spike capital costs? Also, GIS SS are meant for heavily built up urban areas where land is not available for new sub-stations or for expansion of old sub-stations. Not in all places where GIS SS are proposed to be taken up land is such a scarce commodity. We request the Commission to scrutinise TSTRANSCO's proposals to take up GIS SS. The 400 kV GIS SS at Raidurg in the capital city was proposed to be taken up at a cost of Rs. 1,360 Crore. We request the Commission to scrutinise whether such a huge investment is needed to be made in this.

3.1.2 In the case of electric lines out of 31 Nos. 400 kV lines only one is related to UG cable work, out of 61 Nos. 220 kV lines two are related to UG cable works and out of 93 Nos. 132 kV lines only two are related to UG cable works. The question to be put once again is: Can such as small number of UG cable works spike capital costs?

3.3 TSTRANSCO in its reply stated, “the cost of network addition depends on inflation of the electric equipment...” TSTRANSCO adopted 7.68% as inflation/escalation factor (Table 16, p.47). This is on higher side. Even TSDISCOMs have adopted a much lower escalation factor. For example, TSSPDCL has adopted 4.68% as escalation factor (p.29). We request the Commission to adopt lower escalation factor in keeping with declining inflation rate.

3.4 In the present filings Licensee has considered cost of debt as 11% 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.

3.5 The present filings show that the TSTRANSCO is expecting Return on equity at 14% for the 4th 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 TSTRANSCO in this regard and total costs are being recovered under the present Regulatory framework we propose return on equity at 12%.

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

Thanking you.

Sincerely yours,

M. Thimma Reddy