

**The Secretary
Telangana State Electricity Regulatory Commission
11-4-660, 5th floor
Singareni Bhavan, Red Hills
Hyderabad - 500 004
Respected Sir,**

January 27, 2020

Sub : Submission of objections and suggestions on the proposals of TS Discoms – TSSPDCL and TSNPDCL - for aggregate revenue requirement and wheeling tariff under multi-year tariff for the fourth control period – from 2019-20 to 2023-24

With reference to the public notice, inviting objections and suggestions on the subject proposals, I am submitting the following points for the consideration of the Hon'ble Commission:

- 1. We have been requesting the Hon'ble Commission since its inception to direct the Discoms to submit long-term load forecast, resource and procurement plans, hold public hearings on the same and issue its order to ensure orderly development of power sector. In the subject filings, both the TS Discoms have informed that they had filed resource plan for the fourth control period 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. However, no public hearing is held on the same, whatever be the reasons. Long-term load forecast, resource and procurement plans should be the basis for addition of installed capacities periodically in tune with projected demand growth, and addition of transmission and distribution capacities. They have also informed that the Hon'ble Commission, through its letters dated 11.12.2018 and 10.1.2019, informed that their petition of ARR for distribution business for the 4th control period was assigned I.A.Nos. 44 of 2018 and 1 of 2019 and that the same would be taken up along with the ARR (for the year 2019-20) when it was filed and numbered. ARR for a financial year itself is a complicated issue which needs considerable time to study and analyse. Similarly, long-term load forecast and related plans also are of complicated nature and need detailed study to file objections and suggestions. Therefore, they need to be taken up for public hearings separately. Before taking up the subject petitions and MYT filings of TS Transco and SLDC for the 4th control period, the Hon'ble Commission should have taken up long-term load forecast, etc., for public hearing.**
- 2. The Discoms have submitted that they were required to file the ARR & FPT for distribution business for the 4th control period by 30th November, 2018, i.e., not less than 120 days before the commencement of fourth control period. There is no justification in not filing the same in time and seeking permission of the Hon'ble Commission to permit them to file the same along with ARR for retail supply business for the year 2019-20. Their submission that values in the finalized annual accounts for the base year need to be considered for making revisions in the cost estimates of ARR for distribution business to be filed for 4th control period goes**

against the need for filing the latter in time and cannot justify unwarranted delay in finalizing annual accounts for the base year.

3. The Discoms have submitted that true-ups of 1st and 2nd control periods will be filed along with the filings of true-ups for 3rd control period “shortly” and “in due course of time.” Claims for true-up/true-down for the past control period need to be filed, examined and determined after holding public hearings. True-up/true-down determinations give a realistic picture to project future requirements. Therefore, consideration of true-up/true-down for past periods should precede consideration of MYT for the 4th control period. I request the Hon’ble Commission to direct the Discoms to submit true-up/true-down claims for the past control periods forthwith, hold public hearings and issue its order.

4. The Discoms have submitted that, as the Hon’ble Commission’s approval for sales forecast, distribution loss trajectory, load forecast and distribution plan for the 4th control period is still awaited, they have adopted the distribution plan submitted in the resource plan filings in the current multi-year and annual filings. Failure of the Government of Telangana State in filling up posts of the Chairman and Members of the Hon’ble Commission in time is the reason for non-issuance of several orders in time. While former Member of the Commission Sri L Manohar Reddy garu retired on 7.8.2016, another Member Sri H Srinivasulu garu retired on 7.4.2018 and former Chairman Sri Ismail Ali Khan garu retired on 9.1.2019. The present Hon’ble Chairman and Members of the Commission assumed office on 30.10.2019. Clause 85 (2) of Electricity Act, 2003, says: “The State Government shall, within one month from the date of occurrence of any vacancy by reason of death, resignation or removal of the Chairperson or a Member and six months before the superannuation or end of tenure of the Chairperson or Member, make a reference to the Selection Committee for filling up of the vacancy.” Sub-clause 3 of clause 85 says: “The Selection Committee shall finalise the selection of the Chairperson and Members within three months from the date on which the reference is made to it.” Sub-clause 4 says: “The Selection Committee shall recommend a panel of two names for every vacancy referred to it.” The inordinate delay, without any justification whatsoever, in forming the selection committee and making a reference to it for selection of Chairman and Members of the Commission is a blatant violation of law by the State Government. It has led to a defunct Commission, without Chairman and Members, for a long period and resultant non-issuance of annual tariff order for 2019-20 and MYTs for TS Transco, SLDC and the Discoms for the 4th control period in time. It has led to collection of retail supply tariffs by the Discoms from 1st April, 2019, without any order of the Commission, and such collection is also illegal. It has led to non-realisation of substantial revenue which is otherwise due to the Discoms, if annual tariff order for 2019-20 and MYT for the 4th control period were issued by the Commission in time. It will lead to accumulation of huge true-up claims as well by the Discoms. The Hon’ble Commission passed an interim order dated 6.11.2019 allowing the Discoms to levy wheeling charges and losses in kind as applicable as per the order dated 27.3.201, pending disposal of I.A.No.4 of 2019 in O.P.Nos.78 & 79 of 2015. The Hon’ble Commission passed another order dated 6.11.2019

permitting the Discoms to levy the retail supply tariff, cross subsidy surcharge and additional surcharge as applicable on 31.3.2019 as per order dated 27.3.2018, pending disposal of I.A.No.3 of 2019 in O.P.Nos.21 & 22 of 2017. These orders have given legal sanctity to the Discoms to levy and collect those charges with retrospective effect from 1.4.2019.

5. The Discoms have submitted that they continue to lay utmost importance on timely completion of projects undertaken and have been following the practice of capitalizing (adding to fixed assets) only those works which have actually been completed. However, their performance during the 3rd control period, whether they completed the works in time and with the capital costs approved by the Hon'ble Commission or whether there were delays in execution of the works and additional expenditure, are not incorporated in the subject filings. The Discoms have submitted that they have adopted the total expenditure projections as submitted in the distribution plan in the resource plan filings to arrive at ARR for the MYT for 4th control period filings. In other words, without submitting their performance during the 3rd control period and without the Hon'ble Commission determining permissible expenditure for the same period (claims for true-up/true-down) and the distribution plan after holding public hearings, the Discoms have worked out their projections for the 4th control period. In other words, an element of arbitrariness is involved in the projections of the Discoms for the 4th control period. Therefore, for an objective assessment and determination of MYT and related issues for the 4th control period, the Hon'ble Commission has to assess and determine the performance of the Discoms during the 3rd control period and the distribution plan, etc., for the 4th control period as a prerequisite after holding public hearings on the same.
6. TSSPDCL has projected a capital expenditure of Rs.11,261 crore, while TSNPDCL has projected a capital expenditure of Rs.10,393.8 crore for the 4th control period. These projections tend to be inflated, as past experience confirmed, and the proposed works and capital expenditure, item-wise, need to be assessed and determined objectively, as submitted above. The grants they get under various schemes from the Government of India and other agencies, and consumer contributions, as incorporated in the subject proposals, need to be taken into account for the purpose of determining permissible capital expenditure. Since such grants and consumer contributions carry no interest, and do not come under equity or loans of the Discoms, those amounts should not be taken into account for the purpose of working out and permitting weighted average cost of capital or return on capital employed (RoCE), as the case may be. I also request the Hon'ble Commission not to consider payment of depreciation charges on fixed assets to the extent they are created with grants and consumer contributions to ensure that the benefit of such funds accrues to the consumers at large.
7. The Discoms have projected coincident demand and total demand contribution at 33 kv, 11 kv and LT levels. The Discoms have not incorporated estimated demand growth, need for addition of generation capacity and availability of surplus power,

both peak and off peak, during the 4th control period in the subject proposals. The Discoms have to submit availability of generation capacities under existing PPAs in force and capacities proposed to be added during the 4th control period and justify need for the same to meet projected demand. The Discoms have to submit details pertaining to backing down generation capacities, especially for purchasing high-cost and must-run non-conventional energy, specifically wind and solar power, and the fixed cost paid during the 3rd control period and likely to be paid during the 4th control period. Unless these are submitted and orders thereon given by the Hon'ble Commission, as a part and parcel of long-term load forecast, etc., after holding public hearings, the projections of Discoms may go haywire for the following reasons, among others:

- a) Based on estimated demand growth and generation capacity for the 4th control period, which are not revealed, if distribution capacity is expanded, it may lead to creation of excess capacity and under-utilization of capacity. Because plant load factor or capacity utilisation factor (in the case of non-conventional energy) of respective power plants should be the basis for expansion of distribution capacities, with some reserve margin.
- b) Though TS Discoms have proposed growth in the distribution system in the State for the 4th control period, demand growth projections during the same period and the basis for the same are not made public.
- c) Generation capacities being backed down, especially for purchasing non-conventional energy, would lead to under-utilization of distribution capacities. Factual position relating to backing down and payment of fixed charges therefor during the third control period and current financial year needs to be submitted and examined. It also needs to be examined whether NCE is being purchased at higher costs, when power is available from base-load thermal power stations with whom the Discoms had PPAs.
- d) Slump in demand or slower demand growth compared to load forecast also would lead to under-utilization of T&D capacities. This applies to coincident peak demand in MW also. With slowdown of economy in the country and Telangana, the demand for power has come down considerably during the last five months of 2019 compared to the corresponding period of 2018, it is widely reported. With no signs of economy picking up, similar position may continue during the next financial year also.
- e) With a situation of availability of surplus power, both off peak and peak, emerging in the country, if the Discoms cannot sell surplus power in the market at remunerative prices, to that extent, distribution capacity gets under-utilized.
- f) Energy conservation measures, if implemented effectively, also would lead to under-utilization of distribution capacities.

- g) Creation of distribution capacity to distribute power from projects whose timely completion is doubtful would naturally lead to stranded assets and unwarranted financial burdens. Needless to say, addition of distribution capacity for projects concerned should be undertaken and completed in time in such a way that it can be put to use from performance acceptance tests of those projects. Preponing or postponing will have its adverse consequences.**
 - h) If implementation of projects and schemes for which the proposed additions of generation capacity and distribution capacity are intended is delayed and if distribution capacity required to supply power to them is created, it would lead to imposition of heavy and avoidable burdens on consumers of power with a considerable part of capacities created remaining stranded.**
 - i) We request the Hon'ble Commission not to give its consent for addition of distribution capacity and capital expenditure related thereto as proposed by TS Discoms for the generation capacities or anticipated coincident peak demand in MW, without the Discoms establishing the need for procuring power from the proposed projects, without entering into PPAs with them and submitting the same for consideration of the Commission well in time. All these proposals should be subjected to test on the anvil of realistic long-term load forecast and resource plan to be determined by the Commission after holding public hearings on the same.**
- 8. The basis for estimation of costs for various components of the proposed additions for expansion of distribution network are not submitted by the Discoms. They have simply maintained that they have considered the cost data of 2018-19 and it is being escalated by 4.68% year-on-year by considering 60% of CPI and 40% of WPI variation over past five years. The Discoms also have submitted that the unit cost escalated YoY for the next five-year control period is multiplied with the corresponding network additions to arrive at the capital investment required for the 4th MYT period. The methods adopted by the Discoms for purchasing materials and giving contracts for execution of works, actual market trends on competitive basis and whether such works are actually required for the past periods need to be examined by the Hon'ble Commission. Since no such information is submitted by the Discoms in their subject proposals, their calculations of capital costs for the 4th control period should not be taken at their face value. Any interest during construction for delays in respect of completion of works/schemes should not be allowed, unless the Commission's approval for extension in the completion schedule is obtained in advance. There is every need to monitor the way orders or contracts are being given for execution of works/schemes and purchases of materials by TS Discoms to ensure that real and transparent competitive bidding is scrupulously followed, expenditure incurred is prudent and time schedules are adhered to. The particulars of such delays, if any, work/scheme-wise, and cost escalation, including interest during construction, during periods of such delays should be furnished and examined in order to determine permissible expenditure during the third control period. I request the Hon'ble Commission to direct the Discoms to provide the same**

information to us. On the other hand, if the Discoms did not incur the expenditure for the specific works allowed by the Hon'ble Commission for the 3rd control period, it would lead to true-down, with wheeling charges turning out to be inflated.

9. TS Discoms have submitted that depreciation has been calculated considering the rates notified by the Ministry of Power, GoI. Permitting recovery of depreciation charges over the useful lifespan of the assets would ensure a fairer recovery of the same by the Discoms, though over a longer period of time. We request the Hon'ble Commission to allow least possible depreciation rates, or at least, the lowest depreciation rates as per the regulations and norms of CERC or Ministry of Power, GoI, whichever are lower.
10. The Discoms have submitted O & M expenses to the tune of Rs.14050.19 crore by NPDCL and Rs.17,356 crore by SPDCL for the 4th control period. In the proposed total O&M expenses, employee cost constitutes 90.02% for NPDCL and 87.44% for SPDCL. Instead of mechanically approving the costs based on some percentage and actual impact of periodical pay revisions, there is need for determining norms in a fair way for escalation in employee cost, keeping in view how the percentage of employee cost in the total O&M expenditure has been increasing abnormally over the years. Compared to the growth rates of number of sub-stations, length of line (in km), number of DTRs and number of consumers, what have been the growth rates of O&M expenses and the percentages of employees' cost out of total O&M costs for the period from 2014-15 to 2018-19, year-wise? As a part and parcel of improving efficiency, expenses need to be regulated to prudent levels.
11. Cost of debt is projected to increase from 10.16% in 2019-20 to 10.81% in 2023-24 for NPDCL and from 10.33% to 11.26% for SPDCL for the same period. These rates are inflated and need to be pruned in tune with market trends. The Discoms also may explore the possibility of swapping loans to get benefit of relatively lower interest rates. The differences in the rates of interest on debt proposed by the Discoms for the 4th control period show elements of subjectivity unrelated to market trends. The Discoms should explore possibilities of bargaining with funding agencies for reduction of interest rates in view of the downtrend of the same in the market.
12. The Discoms have claimed 14% return on equity component in the regulated rate base. This is in addition to 2% supply margin. SPDCL has claimed income tax rate of 21.55% (MAT) for the 4th control period. NPDCL has claimed income tax rate of 30%, surcharge 12% and cess 3% for the 4th control period. Such divergent claims need to be examined in the light of actual income tax rate applicable. For generation tariff, income tax is allowed as pass through on return on equity only. Here, in the case of distribution business, 14% RoE is allowed by the Commission worked out on the basis of regulated rate base, irrespective of actual equity invested by TS Discoms. Therefore, we request the Hon'ble Commission not to entertain their claim for income tax on normative basis, but confine to return on equity actually provided by the Discoms. When return on equity @ 14% plus 2% supply margin is allowed, income tax on the same can be borne by the company concerned. I request the

Hon'ble Commission to consider to dispense with the practice of allowing income tax to be paid by Discoms as pass through to be collected from the consumers as a part and parcel of charges.

13. The Discoms have claimed special appropriations for safety measures towards safety of consumers and their employees. While SPDCL has claimed special appropriations of Rs.50 crore per annum during the 4th control period, NPDCL has claimed the same ranging from Rs.56.87 crore for 2019-20 to Rs.59.97 crore during 2023-24. While NPDCL was permitted by the Hon'ble Commission to have a budget of Rs.292 crore and SPDCL for Rs.200 crore for the third control period for safety improvement plan, the Discoms have submitted that they have not completed the proposed works under the plan and proposed to complete them on "priority basis" (NPDCL) and on "priority basis preferably as a 100 days program" (SPDCL). This approach shows lack of seriousness on the part of the Discoms to implement safety measures. Moreover, to what extent safety of consumers and employees of the Discoms has been improved and rate of accidents reduced during the third control period is not explained by the Discoms. This is despite the fact that the Hon'ble Commission had made it clear that "non-compliance of this directive (to prepare and implement safety improvement plan during the 3rd control period) may lead to claw back of the amounts provided with carrying norm apart from disallowing the compensation/ex-gratia amounts paid on account of accidents occurred due to poor network." Out of the amounts approved by the Hon'ble Commission under special appropriations for safety measures, how much was spent by the Discoms during the third control period?
14. TSNPDCL has submitted that it has observed that by considering agriculture sales, the loss at LT voltage level is nearer to the loss approved by the Hon'ble Commission for the last year of 3rd control period (2018-19) at 5.01% against 5% approved by the Commission. Despite the various loss reduction measures claimed to have been implemented by the Discom, the latter maintains that further reduction of losses from the present level of distribution losses of 11.23% for the year 2018-19 is very difficult. In view of the same, NPDCL has requested the Hon'ble Commission to approve the voltage wise loss trajectory for the 4th control period from 5.01% achieved during 2018-19 to 4.99% during 2023-24 (LT loss); from 3.92% achieved during 2018-19 to 3.91% during 2023-24 (11 kv loss); and from 3.58% achieved during 2018-19 to 3.57% during 2023-24 (33 kv loss). Despite huge expenditure proposed for expansion and strengthening of the distribution system, the proposed reduction of wheeling losses over a period of five years is an insignificant 0.1%. On its own admission, SPDCL fell short of achieving the targets for reduction of wheeling losses approved by the Hon'ble Commission for the year 2018-19. The Discom had admitted that the actual losses are higher than the approved loss levels set for the third control period. It has requested the Hon'ble Commission to consider the actual losses of 2018-19 to arrive at the revised loss trajectory for the 4th control period. A part of line losses is being shown under agricultural consumption, in the absence of metering, and as a result of questionable methodology being adopted for estimating agricultural consumption of power.

With the claimed continuous supply of power to agriculture throughout the day and year, the scope for such a manipulation gets intensified. I request the Hon'ble Commission to fix targets of reduction of wheeling losses during the 4th control period realistically, taking all relevant factors into consideration.

15. Para 8.1 of national tariff policy states that implementation of multi-year tariff (MYT) framework “would minimize risks for utilities and consumers, promote efficiency and appropriate reduction of system losses and attract investments and would also bring greater predictability to consumer tariffs on the whole by restricting tariff adjustments to known indicators on power purchase prices and inflation indices. The framework should be applied for both public and private utilities.” Experience has confirmed that, irrespective of claims of efficiency improvement, MYT has led to collection of inflated tariffs. We request the Hon'ble Commission to review implementation of its MYT order by the Discoms annually by holding public hearings and take further necessary action periodically, including revision of tariffs annually, if necessary.
16. In view of the above explained situation, I once again request the Hon'ble Commission to consider need for long-term load forecast and thoroughly examine with due diligence and determine realistically the capacity addition required both in generation and distribution based on a realistic long-term load forecast, resources plan and procurement plan submitted by the Discoms, and give its order after holding public hearings. Based on that, the Hon'ble Commission should direct both the Discoms to confine their projections of, and plans and investments for, requirement of energy, purchases and capacity additions to permissible extents and give its approvals accordingly to ensure orderly development of power sector and reasonable tariffs to consumers. Based on that and as per applicable regulations and parameters, capital investment, revenue requirement and wheeling charges proposed by TS Discoms for the fourth control period should be pruned and determined realistically.
17. I request the Hon'ble Commission to direct TS Discoms to send their responses to our objections and suggestions, along with relevant information sought above, in time to enable us to study the same and make further submissions during the public hearing proposed to be held on 8.2.2020 on the subject proposals.

Thanking you,

Yours sincerely,

M. Venugopala Rao
Senior Journalist &
Convener, Centre for Power Studies

**H.No.1-100/MP/101, Monarch Prestige,
Journalists' Colony, Gopanpally,
Serilingampally Mandal,
Hyderabad – 500 032**

Copy to:

- 1.CMD, TS SPDCL, Hyderabad**
- 2.CMD, TS NPDCL, Warangal**