

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

January 17, 2018

Respected Sir,

Sub : Submission of objections and suggestions on the proposals of TSSPDCL and TSNPDCL on ARR and tariff for the year 2018-19 in O.P.Nos.21/2017 and 22/2017 respectively.

With reference to the public notice dated 28.12.2017, inviting objections and suggestions on the subject proposals, I am submitting the following points for the consideration of the Hon'ble Commission:

- 1. For the year 2018-19, TSSPDCL has shown aggregate revenue requirement of Rs.23,518.88 crore and total revenue at current tariffs, including non-tariff income, of Rs.19,296.50 crore, with a revenue deficit of Rs.4222.38 crore, while TSPDCL has shown aggregate revenue requirement of Rs.12255.40 crore and total revenue at current tariffs, including NTI, of Rs.6706.00 crore, with a revenue deficit of Rs.5548.60 crore. Both the Dicoms have not proposed any tariff hike, except making some modifications in tariff for lift irrigation schemes and introducing a new category for electrical vehicles, and requested the Hon'ble Commission to permit them to collect tariffs determined by it for the year 2017-18 for the year 2018-19 also. The Discoms have not explained how they propose to bridge the projected revenue gap of Rs.9970.98 crore and to what extent the GoTS would provide subsidy to bridge the projected revenue gap.**
- 2. The projected revenue gaps of both the Discoms have to be seen in the background of tariff hike for the year 2016-17 and revised net revenue gap of Rs.5031.17 crore shown by TSSPDCL and of Rs.1793.42 crore by TSNPDCL for the year 2017-18. The substantial revised revenue gap of Rs.6824.59 crore for the year 2017-18 has to be seen in the light of no revision of tariffs for the same year. For the year 2016-17, the Discoms have not shown revised revenue gap/surplus in their subject ARR submissions; nor have they submitted their petitions for true-up/true-down claims for the same year. Since auditing of their accounts for 2016-17 must have been completed long time back, they should have filed those petitions with the Hon'ble Commission already. Going by this trend, the proposal of the Discoms not to hike tariffs for the year 2018-19 and their failure to explain how they propose to bridge the projected revenue gaps for the same year and for various other factors not taken into consideration by them for the year 2018-19, it can be asserted that they will come up with true-up claims for 2016-17, 2017-18 and the year 2018-19 also later in the post-election period. Therefore, the proposal of the Discoms not to hike tariffs for the year 2018-19 is a futile attempt to hoodwink the people of the State that there are no additional burdens of tariff hikes in the pre-election period to meet political**

expediency of the party-in-power. In all probability, the Discoms may be forced by the powers-that-be to postpone submission of true up claims for the year 2016-17 and the current financial year to post-poll period. It is for the Hon'ble Commission to exercise its legitimate authority to direct the Discoms to submit the same in time and issue orders after holding public hearings promptly.

3. Since the Discoms have not made it clear as to how they would propose to bridge the projected revenue gaps for the year 2018-19, we request the Hon'ble Commission to make it clear that no true up claim would be permitted later for the revenue gap, if any, that is going to be determined by it after taking into account the subsidy amount the GoTS is willing to provide. We also request the Hon'ble Commission to make it clear to the Discoms that the remaining revenue gap, if any, to be determined for the year 2018-19 will not be treated as regulatory asset. It is to be noted here that regulatory asset can be considered only when hefty tariff hike is required and only a part of it is permitted by the Commission to avoid tariff shock to the consumers and that such revenue gap treated as regulatory asset can be permitted to be collected from the consumers in later years. Here, in the subject proposals of the Discoms, as they have not even proposed any tariff hike for the year 2018-19, the question of considering regulatory asset does not arise.
4. Both the Discoms have shown an energy requirement of 64,291 mu - 42193 mu for SPDCL and 22098 mu for NPDCL - against the projected availability of 67,573 mu for the year 2018-19. They have shown a surplus of 3282 mu. Projections made by Telangana Discoms on availability and requirement of energy in MU year-wise are given below (in brackets, quantum approved by TSERC):

Year	Availability	Requirement	Purchases approved for true-up
2015-16	60,250(54,576.66)	52,100(48,550.97)	45,586.94
2016-17	64,669 (56,109.09)	54,884 (52,063)	46,843.05
2017-18	66,077.03 (58,357.73)	54,756 (52,245.39)	■

In the tariff order for 2015-16, TSERC observed that “based on the month wise energy requirement and energy availability, there is no requirement of energy from bilateral/short term purchases.” However, true-up approved for 2015-16 shows that the Commission has approved true-up of 10,503.58 MU against 12,429.12 MU claimed to have been purchased in the market by the Discoms. Similarly, availability of 56,109.09 MU for the year 2016-17 approved by TSERC excluded market purchases. However, true-up approved for 2016-17 shows that the Commission has approved true-up of 2497.60 MU against 2837.43 MU claimed to have been purchased in the market by the Discoms. The Discoms have not submitted their true-up claims for 2015-16 and 2016-17, along with ARR and tariff proposals for the year 2017-18, and relevant details of true up claims are hidden from the public gaze. However, the Commission has considered the true-up/true-down claims of the Discoms provisionally in the tariff order for 2017-18. In the light of serious allegations made, as reported in the media, it is all the more important to ensure that all relevant

information relating to true up claims of the Discoms - the procedure adopted for purchasing additional power and the tariffs finalised, whether such additional power was required, the conditionalities incorporated in the agreements like paying 20% of cost if contracted power is not purchased, whether other power plants with whom the Discoms had long-term PPAs were asked to back down in order to purchase unwanted short-term power, whether NCE units had supplied power as per PPAs, etc. - is made public and a public hearing is held on the same. Concealing such vital information and not holding public hearing on true up claims of the Discoms would stifle the spirit of regulatory process of the Commission. The above table shows that availability and requirement of power have been inflated and actual purchases are even lesser. Going by this trend, the projected requirement of 64,291 mu for the year 2018-19 seems inflated, notwithstanding the claims of the Discoms for additional requirement of power for agriculture, lift irrigation schemes, metro rail project, etc., thereby showing availability of surplus at a much reduced level. When the Discoms had projected availability of 66,077.03 mu for the year 2017-18, how is it that they have projected 67,573 mu only for the year 2018-19 - an increase of just 1496 mu - despite projection of substantial addition of installed capacity of new projects during 2018-19?

5. Against an installed thermal capacity of TS Genco of 4702.5 MW, the Discoms have projected availability of 18533 mu for the year 2018-19 and considered a plant load factor of 70%. When Sigareni Collieries Company Ltd. has stopped supply of coal to thermal projects of AP Genco and has been supplying additional coal to thermal projects of TS Genco, with no need for importing coal, what is the basis, as well as justification, for considering a PLF of 70% only for thermal projects of TS Genco? The Discoms, in their compliance report, responding to one of the directives of the Commission, have explained that “as per TS Genco’s letter dated 17.10.2017, the entire coal requirement for TS Genco thermal power stations are being met from M/s SCCL, which clarifies that no imported coal is being procured by TS Genco.” The Discoms have claimed that they purchase the entire generation of TS Genco. Even going by the PLF achieved by the thermal plants of TS Genco over the years, there is no justification in considering their PLF at 70% only. With a capacity of 4702.5 MW, 32955.12 mu can be generated with a PLF of 80%. In other words, if TS Genco plants generate with a PLF of 80%, TS Discoms will get additional energy of 14422.12 mu. For what purpose the Discoms are projecting much reduced availability of power from TS Genco? Will they pay fixed charges for the capacity to be backed down by the projects of TS Genco?
6. For the year 2018-19 also, the Discoms have not considered availability of power from new gas based power projects of Vemagiri, Konaseema, GVK extension and Goutami, with a total capacity of 1499 MW, on the ground that natural gas would not be available to them. If these plants generate and supply power with a PLF of 80%, TS Discoms will get 5669.47 mu as their share of 53.89%.
7. The Discoms have projected availability of NCE to the tune of 7878.34 mu for the year 2018-19. Against the projected sale of 55683.37 mu, purchase of NCE of 7878.34 mu works out to 14.14%. If the actual sale of power comes down, the

percentage of NCE will turn out to be much more. Against a minimum of 5% NCE to be purchased by the Discoms, as per the renewable power purchase order of the Hon'ble Commission, entering into long-term PPAs for purchasing NCE at higher tariffs is unwarranted for many reasons. The following points need to be considered while issuing RPPO order and in permitting the Discoms to purchase NCE afresh:

- a) To argue that RPPO stipulates only minimum of NCE to be purchased by the Discoms and that there is no maximum limit for such purchases is to misinterpret the spirit behind RPPO in a perverse way. Since the cost of non-conventional energy is very much higher and as such the Discoms may not incline to purchase the same, in order to encourage generation and consumption of NCE, the system of RPPO has been introduced and implemented. The misinterpretation that since RPPO stipulates only a minimum of NCE to be purchased by the Discoms, the latter are free to purchase NCE to any extent arbitrarily, irrespective of requirement and availability of power from other sources under binding obligations of the PPAs, defeats the very spirit of the Electricity Act and the objectives of ensuring orderly development of power sector and ensuring competitive and reasonable tariffs to the consumers. The vulgar argument that consent of the Hon'ble Commission is not even required to PPAs the Discoms enter into with NCE developers or that the Hon'ble Commission has to give its consent to such PPAs automatically negates the very objective of regulatory process and defeats the very purpose of the existence of electricity regulatory commissions.
- b) The tariffs to be paid by the Discoms to NCE units are very much higher and are nowhere near the lower tariffs discovered through competitive biddings for solar and wind energy during the recent period elsewhere in the country. The average tariff for solar power is shown as Rs.5.76 per kwh and that of wind power as Rs.4.70 per kwh for the year 2018-19.
- c) The NCE units being treated as must-run ones, with no scope for backing down, and as the higher tariffs continue for the entire period of PPAs of 25 years, the Discoms are compelled to purchase the entire power generated by them, irrespective of their requirement and availability of relatively cheaper power from other sources under PPAs.
- d) With generation of solar power taking place only during day time when adequate radiation of the Sun is available, and generation of wind energy being seasonal and dependent on wind velocity, admittedly, those units cannot meet peak requirements of the Discoms.
- e) By entering into long-term PPAs with NCE units with seasonal generation of power, the Discoms have to depend on other base-load stations to meet their requirement during the periods when NCE units cannot generate. It leads to some kind of inequilibrium, when non-NCE units have to be backed down during the periods when NCE units generate power.

- f) They, especially wind energy units, create problems for grid maintenance, with scope for unexpected wild fluctuations in generation.**
- g) Notwithstanding the stated objectives of reducing global warming and protecting environment for encouraging generation and consumption of NCE, entering into long-term PPAs with NCE units, especially wind and solar energy units, at higher tariffs exceeding even the average cost of power purchase by the Discoms, far exceeding their obligations under RPPO, requirement of power and availability of power under existing PPAs in force and agreements or PPAs with ongoing projects, leads to increasing and unwarranted surplus power and payment of fixed charges for backing down the same not only at present but also in the medium term.**
- h) Since the tariffs for NCE are higher, the Discoms cannot compete in the market to sell their surplus power at remunerative tariffs.**
- i) In order to purchase power from NCE units, even in a situation of availability of substantial surplus power, the Discoms have to pay higher tariffs to them, and back down other thermal stations with relatively lower tariffs. In other words, it imposes dual burdens on consumers of the Discoms, in the form of higher tariffs to NCE, on the one hand, and payment of fixed charges for backing down thermal stations, on the other.**
- j) There are instances of extending time for completion of NCE projects, especially solar and wind, in a questionable manner. While PPAs were entered into with generators for purchasing NCE with higher generic and other tariffs determined through bidding, there have been delays in executing the units in agreed time schedules. While the generators are getting the benefit of falling prices of wind turbines and solar panels in the market with such impermissible delays, the Discoms continue to pay old higher tariffs to them, without corresponding reduction in tariffs. There are instances when PPAs are submitted to ERCs seeking their consent after NCE units are commissioned and started generation and supply of power to the Discoms, thus presenting the Commissions with a fait accompli.**
- k) Existing and ongoing thermal and other non-NCE projects and the obligations of purchasing power from them under PPAs by the Discoms cannot be wished away. It is imprudent to enter into long-term PPAs with NCE units to purchase unwarranted power, when adequate power is, and going to be, available from other sources under PPAs.**
- l) Ignoring these realities, among others, the Government of India has been exercising its authority, taking undue advantage of power being in the concurrent list of the Constitution, to impose its whimsical policy decisions on the States, without any responsibility and accountability for the adverse consequences that arise as a result of implementing the same by the States.**

- m) **Allowing pollution-causing thermal and other power projects indiscriminately and irrespective of demand growth, on the one hand, and talking of need for encouraging NCE, on the other, in the name of environmental protection, is one of the glaring dichotomies in the policy approaches of the Governments.**
 - n) **Till viable and economical inverter-like mechanism is developed and put to use to store NCE and use the same as and when required, the problems and adverse consequences, as explained above, among others, would continue to persist. Needless to say, research and development in that direction need to be encouraged. Hence, the need for a gradual, cautious and pragmatic approach is imperative for encouraging NCE.**
 - o) **Global warming by its very definition is global in nature and needs to be tackled accordingly in a holistic and multi-dimensional way with international cooperation. Thermal power stations alone are not responsible for global warming and environmental problems and NCE alone is not the solution to the same.**
 - p) **Instead of going in a cautious and gradual manner to purchase NCE through real and transparent competitive bidding periodically to get the benefit of falling tariffs, that the Governments have forced, and are forcing, the Discoms to enter into long-term PPAs at higher tariffs to purchase NCE, with adverse consequences to the Discoms and their consumers, confirms their anxiety to do undue favours to generators and manufacturers, even with manipulative and extraneous considerations, and in the process the powers-that-be are encouraging themselves.**
 - q) **Conditions specific to different States need to be taken into account for encouraging NCE and, as such, uniform targets under RPPO to all the States are unwarranted. That is the reason why the GoI is constrained to make it clear in its proposals for increasing percentages of NCE under RPPO, that they are guidelines only and that it is for the concerned ERC to determine such percentages. In other words, the concerned ERCs have to take a realistic view of objective conditions in the respective State while issuing RPPO orders and in considering long-term PPAs the Discoms have with NCE units, to protect larger consumer interest and ensuring orderly development of power sector to the extent permissible under their jurisdiction, instead of inclining to be more loyal than the king in allowing the Discoms to enter into long-term PPAs with NCE units indiscriminately and unrelated to requirement to meet growing demand for power periodically.**
8. **Responding to our view, the Hon'ble APERC, in its order dated 13.12.2017 relating to 41 PPAs APSPDCL had with wind power developers, observed: "it has to be noted that what was prescribed by the Regulation on Renewable Power Purchase Obligation was the minimum renewable energy that has to be procured and there is no cap on the quantum of such energy that has to be procured. It is open to procure much more renewable energy than the minimum which should be a commercial and practical decision to be taken by the utilities concerned" (para 57). Though the Hon'ble APERC pointed out that purchasing NCE more than the minimum**

determined by it under RPPO “should be a commercial and practical decision to be taken by the utilities concerned,” at the same time, it is for the Hon’ble Commission to determine whether the decisions of the Discoms to purchase power are “commercial and practical,” taking into account various issues submitted above and with a holistic view and regulate such purchases on “commercial and practical” grounds which should include the impact of avoidable additional burdens on consumers in the form of resultant higher tariffs and as a result of availability of substantial surplus power and the fixed charges to be paid for backing down the same. Leaving it to the discretion of the Discoms would tantamount to the Commission shirking its regulatory responsibility and allowing itself to be seen as a regularisation Commission. Already enough damage has been done to larger consumer interest by the powers-that-be and the power utilities of GoAP in taking decisions to purchase NCE on long-term basis at very high cost and by the Hon’ble APERC in giving its consents, approvals and orders accordingly. Allowing the Discoms to purchase 23.44% of NCE on long-term basis and at higher tariffs and imposing avoidable huge burdens on consumers cannot be justified under vague assertions of “commercial and practical” grounds and generalised assertions of environmental protection and promoting renewable energy. Promotion of renewable energy should not be allowed to degenerate into promoting the vested interests of developers, manufacturers and the powers-that-be at the cost of the vast multitude of consumers of power. It is untenable to presume that unless NCE is purchased on long-term basis and at higher tariffs, unrelated to requirement of power to meet growing demand and binding obligations of the Discoms under existing and proposed PPAs to purchase power from other sources, environment cannot be protected. The Hon’ble APERC observed that “ultimately it becomes a question of balancing conflicting factors and interests and there appeared to be no absolutes either way.” We would like to assert that allowing the Discoms to purchase 23.44% NCE, by no stretch of imagination, can be treated as “balancing conflicting factors and interests” and that, even though no justifiable “absolutes” appear, objective conditions and the real implications of such questionable decisions and consents are discernible and can be understood and the same should be taken into account before taking decisions and giving consents. In this regard, the powers-that-be and the Hon’ble APERC appear to be found wanting in taking prudent decisions and already irreparable damage has been caused to larger consumer interest on long-term basis. We are bringing these points to the notice of the Hon’ble TSERC in academic interest and for its consideration, since no fresh RPPO is issued by it and the minimum of 5% NCE to be purchased by the Discoms under the earlier RPPO continues to be in effect, but purchases of NCE at higher tariffs by the TS Discoms have already exceeded the minimum percentage. Our above-explained submissions on purchases of NCE by AP Discoms and consents and orders given by the Hon’ble APERC, would apply in the case of the NCE purchases being made by the TS Discoms also, albeit with a difference in degree.

9. For the year 2018-19, the Discoms have considered variable costs of the thermal projects of TS Genco and central utilities as given by them or “capped” at escalation of 10% to 15% on the variable costs approved in the tariff order for 2017-18

without explaining the reasons for such abnormal escalation. If, for any reason, the costs of coal and the resultant variable costs increase during 2018-19, the Discoms will have the opportunity to claim the additional expenditure under true-up. Therefore, we request the Hon'ble Commission not to allow the presumptuous consideration of 10% to 15% escalation in variable cost for coal-based thermal stations.

10. In the tariff order for 2017-18, the Hon'ble Commission has stated that, taking cognisance of the discontinuance of inter-state sharing of power between Telangana and Andhra Pradesh from 10.6.2017, the energy allocation from AP Genco has not been considered for the TS Discoms and that the entire availability of TS Genco has been considered for TS Discoms from 11.6.2017. As a result of this development, which has potential for legal litigations, how much of their share of power from the projects of AP Genco the TS Discoms are not getting and how much additional power the latter are getting from TS Genco? Is AP Genco raising bills for fixed costs for the power not being supplied to TS Discoms, obviously, treating such non-supply as backing down? Are the TS Discoms contesting non-supply of their share of power by AP Genco? As a result of non-supply of their share of power from AP Genco and supply of additional power from TS Genco, what is the estimated total saving in cost of power purchase of TS Discoms, in view of the fact that the variable costs of thermal projects of TS Genco are relatively lower, being pithead stations, vis a vis the higher variable costs of the thermal projects of AP Genco?
11. While proposing 24-hour a day supply of power to agriculture, the Discoms have projected cost of service for agriculture @ Rs.6.58 per kwh for SPDCL and @ Rs.6.39 per kwh for NPDCL. The Discoms have reportedly spent thousands of crores of Rupees for strengthening and expanding distribution system for ensuring supply of power to agriculture throughout the day. That expenditure has to be taken into account for working out cost of service for agriculture and after determining cross subsidy for agriculture, the remaining amount required for purchasing and supplying power needed for agriculture should be provided by GoTS towards subsidy to implement its decision of supply of power free of cost to agriculture. As is well known, the APERC earlier in the united Andhra Pradesh and even now, and the TSERC after it came into existence, have been reducing the requirement of power for agriculture projected by the Discoms. The Discoms have been claiming true up for additional supply of power to agriculture. The problem of determining agricultural consumption of power realistically continues to be intractable, in the absence of metering of agricultural pump sets and the questionable methodologies being adopted by the Discoms for working out consumption of power for agriculture. The decision of the GoTS to supply power to agriculture throughout the day and free of cost would further complicate the problem, with added scope for manipulations. The need, as well as practicability, for 24-hour a day supply of power to agriculture has not been explained by the authorities concerned, as if the decision by itself were justified. The farmers have never asked for supply of power throughout the day for agriculture. Needless to say,

it is imperative to ensure supply of power to agriculture adequately and in time to see that crops do not wither away for want of supply of power for pumping out required ground water by enhancing the hours of supply whenever and wherever required for this purpose. By and large, such a prudent arrangement has been in practice over the years. The farmers have been demanding supply of power to agriculture during the day time. If such an arrangement is possible, the need for supply of power throughout the day for agriculture remains questionable. Going by the extent of land and the kind of crops they cultivate, the duration for which water is required, availability of ground water and interregnum between two spells of pumping required for replenishment of ground water, etc., small and marginal farmers, obviously, do not require supply of power throughout the day. Then, who are the real beneficiaries of supply of power throughout the day to agriculture? How much additional quantum of power is estimated to be required for supply to agriculture throughout the day in the State, going by the results of implementing the programme on experimental basis in three (old) districts? For ensuring such supply, how the Discoms are proposing to maintain grid frequency and what kind of situations they are facing for backing down installed capacities, with fluctuations in usage of power by agriculture daily and seasonally? Is this decision intended to justify the questionable decisions of the powers-that-be in forcing the Discoms to enter into short-term, medium-term and even long-term PPAs for purchasing unwarranted power, including NCE which cannot meet peak demand, especially in view of the trend of projections of requirement of power proven to be inflated?

12. Despite the fact that tariff hike is being permitted and substantial amounts of subsidy are being provided by the Government every year, huge revenue gap for the next financial year and true up claims for revised revenue deficits for past periods are being projected by the Discoms. The failures of commission and omission of the Government of India, imprudent decisions taken by the powers-that-be and at their behest by the power utilities of the GoTS, some of the consents and orders being given by the Hon'ble Commission and inefficiencies of the power utilities are the root causes for the ever burgeoning and avoidable burdens on consumers of power in particular and on the people of the State in general. In view of the substantial revised revenue gap of Rs.6824.59 crore for the year 2017-18 shown by the Discoms, we request the Hon'ble Commission to determine revenue requirement and revenue gap of the Discoms for the year 2018-19 realistically by assessing availability of power under existing PPAs and agreements the Discoms had with projects, realistic demand for 2018-19, availability of surplus, problems of backing down that arise as a result of purchasing unwarranted power from NCE units, need for additional power, if any, during peak hours and opportunities available to purchase the same at competitive tariffs and for the short duration required, need for efforts by the GoTS and its power utilities to get fuels like natural gas and indigenous coal as per allocations made to various projects from whom the Discoms purchase power under PPAs, dispensing with the imprudent practice of determining generic tariffs for NCE and allowing/forcing the Discoms to enter into long-term PPAs with NCE units to purchase power at such higher generic tariffs, permitting the Discoms to enter into long-term PPAs with developers by selecting them through real, transparent

and competitive bidding process only based on realistic long-term and medium-term load forecast and power procurement plans. If revenue requirement and revenue gap are determined unrealistically in such a way that whatever subsidy the GoTS is willing to provide would bridge the revenue gap, as was the case for the year 2017-18, the Discoms will come up with substantial revised revenue gap for 2018-19 later and seek true up of the same in the post-election period. This statistical trick can be played by artificially deflating revenue requirement and revenue gap. Any such statistical legerdemain would serve the devious political expediency of the party-in-power to hoodwink the people that there are no additional burdens on consumers in the form of tariff hike in the pre-election period.

13. I request the Hon'ble Commission to provide me an opportunity to make further submissions in person during the public hearings on the subject proposals of both the Discoms after receiving and studying their replies to our submissions.

Thanking you,

Yours sincerely,

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