To
The Secretary
Telangana State Electricity Regulatory Commission
11-4-660, 5th floor
Singareni Bhavan, Red Hills
Hyderabad - 500 004 **January 12, 2024**

Respected Sir,

Sub : Submission of objections and suggestions on filings of TSSPDCL and TSNPDCL on their annual performance review of distribution business for FY 2022-23 under multi-year tariff principles in OP Nos.37 and 38 of 2023, respectively.

With reference to the public notice dated 2.1.2024, am submitting the following points on the subject issues for the consideration of the Hon'ble Commission:

1. **In the subject petitions, TSSPDCL has shown a revenue surplus of Rs.319.80 crore and TSNPDCL a revenue surplus of Rs.780.09 crore. Though SPDCL has maintained that the revenue surplus includes carrying cost, the latter is not shown separately in its data. NPDCL has not made it clear whether carrying cost is included or not in the revenue surplus. From the claims of the DISCOMs that they have incurred a huge loss for the year 2022-23 - SPDCL Rs.8147.48 crore and NPDCL Rs.2955.96 crore - it is clear that the revenue surplus shown by them for the same FY is not on account of any improvement in efficiency in their performance. The expenditures approved by the Commission and actual expenditures incurred by the DISCOMs confirm that the latter could not spend the approved investments for the intended purposes of strengthening and expanding their distribution network. This dichotomy has the following implications, among others:**

a) **The investments proposed by the DISCOMs and approved by the Commission are unrealistic and inflated. The DISCOMs have collected Rs.1099.89 crore more than what was permissible for the year 2022-23from the consumers and the same has to be trued down with carrying cost. It also confirms the tendency on the part of the licensees to inflate requirement of capital investment so as to collect more charges from the consumers than what are permissible as per actual expenditures incurred and investments capitalized.**

b) **If the investments proposed by the DISCOMs and approved by the Commission are realistic and actually required for maintenance, expansion and strengthening of the distribution network, then the under-performance of the DISCOMs confirms that the distribution network is strengthened and expanded inadequately and that there is deficiency in the network.**

c) **The prudence check by the Hon'ble Commission also has been found deficient, even if it reduced the investments proposed by the DISCOMs for the FY 2022-23.**

d) **The investments made by SPDCL for 2022-23 is less by Rs.911.68 crore and capitalization less by Rs.727.25 crore. Regulated rate base came down by Rs.228.30 crore and return on equity by Rs.281.91 crore. In the case of NPDCL, new investments made came down by Rs.1060.48 crore and capitalization by Rs.1086.26 crore. Regulated rate base came down by Rs.2389.55 crore and return on capital employed by Rs.286.49 crore. Despite such lesser expenditure and lesser capitalization, SPDCL has shown an increase by Rs.131 crore in O&M expenditure, while NPDCL has shown a decrease in O&M expenditure by 278.70 crore. It is to be noted that O&M expenditure as approved by the Commission was on the basis of the capital investment and capitalization of assets as approved by it. In other words, the increase in O&M expenditure shown by SPDCL is questionable, both in relative and absolute terms.**

e) **That the DISCOMs have shown a revenue surplus of Rs.1099.89 crore for one year of the 4th control period shows that they have been collecting excessive revenue from the consumers for their distribution business, without any justification and retaining the same for a period of five years of the control period. This makes the need and justification for arrangement of MYT questionable.**

f) **SPDCL has maintained that the reasons for exceeding O&M expenses for the year 2022-23 are mainly salaries, wages and other employee costs; whereas administrative and general costs including legal charges, audit fees, and taxes and repairs and maintenance costs have come down compared to what were approved by the Commission. These factors do apply to NPDCL also, may be, with a difference in degree. Hence, these claims of SPDCL need to be subjected to strict prudence check.**

g) **Though the Hon'ble Commission did not approve any expenditure under "other expenditure," SPDCL has claimed other expenditure of Rs.57.03 crore for 2022-23. It includes price variation of Rs.34.69 crore. If there is price variation, it should be shown under heads of expenses approved by the Commission, with necessary explanation and justification for the same. Similarly, SPDCL has shown compensation of Rs.19.76 crore, without explaining to whom such compensation was paid and for what purpose. For asset scrap, it has shown an expenditure of Rs.2.58 crore, without explaining how such an expenditure was necessitated, even while showing a revenue accrual of Rs.16.21 crore on sale of scrap. Similarly, NPDCL has shown other expenditure of Rs.16.54 crore under cost variation of materials, without explaining for which materials such a variation has arisen and what is the necessity to show such a variation under other expenditure, instead of clubbing it with the cost of such materials, if approved by the Commission.**

2. **The Hon'ble Commission has been determining annual revenue requirement of the DISCOMs, and their revenue gap is being bridged with cross subsidy, subsidy from the government and tariff hike. Furthermore, variations in revenue requirement are being allowed under uncontrollable factors as true-up and true-down. Revenue gap**

that arises as a result of supplying power to agriculture LT V exceeding the quantum determined by the Commission is being allowed to be recovered as additional subsidy from the government. When such is the case, what is the basis for the DISCOMs claiming a hefty loss of Rs.8147.48 crore by SPDCL and Rs.2955.96 crore, that, too, for just one financial year? If the claimed losses include dues from the government and consumers, both governmental and non-governmental, they should be treated as revenue to be collected, not as losses. That the DISCOMs have shown such hefty losses, without even explaining the reasons for incurring the same, and without claiming them under true-up, shows that they are a result of their inefficiency and impermissible. Without explaining and understanding the reasons for the so-called losses, even for the DISCOMs, it is difficult to take effective steps to prevent recurrence of such losses in future by taking necessary remedial measures in time. And, such a failure in the light of the kind of decisions taken and directions given by the erstwhile state government landed the DISCOMs in financial crisis, as is being revealed in the review meetings being held by the new chief minister and deputy chief minister, who is holding the portfolio of energy also.

3. **An effective prudence check by the Hon'ble Commission of the claimed variations in expenditure and revenue of the TSDISCOMs for the year 2022-23 would reveal what is permissible and what is impermissible. It may result in higher revenue surplus by virtue of expenditures not incurred by the DISCOMs. We request the Hon'ble Commission accordingly and determine the amounts to be trued down and allow the same with carrying cost to be deducted from the monthly power bills of consumers.**

4. **I request the Hon'ble Commission to consider the above-mentioned submissions, among others, and provide me an opportunity to make further submissions after receiving responses of the DISCOMs and during the public hearings on the subject issues.**

Thanking you,

Yours sincerely,

M. Venugopala Rao
Senior Journalist &
Convener, Centre for Power Studies
H.No.1-100/MP/101, Monarch Prestige, Journalists' Colony,
Serilingampally Mandal, Hyderabad – 500 032

Copy to : 1. CMD, TSSPDCL
2. CMD, TSNPDCL