Email **P Sarada**

Fwd: Comments on TSDISCOMs distribution tariff true up

From : P Sarada <jdte@tserc.gov.in> Wed, Oct 26, 2022 11:47 AM
Subject : Fwd: Comments on TSDISCOMs distribution tariff true up
To : maheshsatish97 <maheshsatish97@gmail.com>

From: "Nagaraj Naram" <secy@tserc.gov.in>
To: "P Sarada" <jdte@tserc.gov.in>
Sent: Tuesday, October 25, 2022 12:29:55 PM
Subject: Fwd: Comments on TSDISCOMs distribution tariff true up

Sir,

Please find enclosed an email received from M. Thimma Reddy submitting comments on the distribution true up petitions. Forwarded for necessary action if any.

From: "thimmanna m" <thimmanna_m@rediffmail.com>
To: "Nagaraj Naram" <secy@tserc.gov.in>
Cc: ractsspdcl@gmail.com, derac@tsnpdcl.in
Sent: Friday, October 21, 2022 12:42:03 PM
Subject: Comments on TSDISCOMs distribution tariff true up

To, The Secretary, T.S. Electricity Regulatory Commission, 5th Floor, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	From, M. Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, H. No. 3-4-107/1, (Plot No. 39) Radhakrishna Nagar, Attapur, Hyderabad – 500 048

Date: 21-10-2022

Dear Sir;

Sub : Submission of objections and suggestions on the true-up claims of TSNPDCL and TSSPDCL for their distribution business for the period covering 1st, , 2nd , 3rd control periods and annual performance review of first two years of the 4th control period.
Ref:- Public Notices in OP Nos.39, 40, 41 and 42 of 2021, IA Nos.12, 13, 14 and 15 of 2021 and OP No.22 of 2022, and OP Nos.43, 44, 45 ad 46 of 2021, IA Nos.16, 17, 18, 19 of 2021 and OP No.20 of 2022.

1.1 In response to the above Public Notices we are submitting the following comments and suggestions on TSDISCOMs' true up proposals related to their distribution business for the period covering 1st, 2nd, 3rd control periods and annual performance review of first two years of the 4th control period. This exercise involved examining data related to 17 years and we are not able submit our suggestions in time as stipulated in the above Public Notices. We request the Commission to condone the delay in submitting the suggestions and allow this submission.

First Control period (2006-07 – 2008-09)

2.1 TSDISCOMs in their submissions on distribution tariff for the third control period had stated that the Hon'ble TSERC in O.P. Nos.78 and 79 of 2015 of Distribution tariff order for 3rd control period had directed the TSDISCOMs to file the true up proposals of Distribution Business for both control periods (i.e., 1st Control Period and 2nd Control Period) after segregating the assets and liabilities of Anantapur and Kurnool districts from APCPDCL and seven mandals of APNPDCL in line with AP Reorganisation Act, 2014, as per prevailing Regulation.

2.2.1 In paragraph 3 of the above said Order the Commission had noted as follows: "The erstwhile Andhra Pradesh Electricity Regulatory Commission has determined the ARR and Wheeling Tariffs for the Distribution Business for the Third control Period for four Distribution Licensees of united state of Andhra Pradesh and notified on 9th May, 2014. In view of the bifurcation of the State, as per AP Reorganization Act 2014, certain changes have taken place in the areas of the DISCOMs. Due to this the assets and the liabilities of the DISCOMs also have undergone changes. Hence, considering this aspect, the said erstwhile Commission in paragraph number 6 of Chapter 1 (Introduction) in the said Order stated as follows: "Accordingly this Commission has decided to issue this order which the nominally indicated as applicable for the 3rd Control Period (2014-19) and which is consistent with its existent regulation, will be subject to review by Successor Regulatory Commissions of the two states whenever deemed necessary by respective Commissions"

2.2.2 During the public process on determination of distribution tariff for the third control period one of the objectors had requested that truing up has to be undertaken for all the years of the second control period. In response to this the Commission had directed the TSDISCOMs as follows: "The Discoms have to file the true-up for the entire second control period as per the Regulation 4 of 2005. It is not correct to file true-up for one year period. The True-up for the first control period has also to be filed afresh after segregating the assets and liabilities of the areas transferred from TSDISCOMS to APDISCOMS. **The Discoms (TSSPDCL and TSNPDCL) are directed to file the true up proposals of Distribution Business for both control periods (i.e., 1st Control Period and 2nd Control Period) after segregating the assets and liabilities of Anantapur and Kurnool districts from APCPDCL and seven mandals of APNPDCL in line with AP Reorganisation Act, 2014, as per prevailing Regulation."** (Paragraph 22 (c))

2.2.3 The erstwhile APERC in its distribution tariff order for the third control period dated 9th May, 2014had also decided on true up for the first control period (O.P No. 64 (APCPDCL) and 68 (APNPDCL) of 2013). In paragraph 19 of this Order the erstwhile APERC had noted as follows: "The Commission has examined the true up filings of first control period for the Distribution and Retail supply businesses. The Commission has conducted prudent check on the true up filings and verified with audited figures in annual accounts for the respective years and compared with approved figures in Tariff orders of respective years and the details of the same are indicated in the

following paras.
"The Commission determined ARR and Wheeling Tariffs for Distribution Business for the 1st Control Period FY2006-07 to FY2008-09 and ARR & Tariff for Retail Supply Business for FY2006-07 for all four Distribution Companies vide Tariff Order Date 23rd March 2006. The Distribution & Retail Supply tariffs so determined were based on the Multi-Year Tariff framework and approach as envisaged in Regulation No.4 of 2005. Section 10 of this Regulation envisages a true up of accounts at the end of a Control Period after the audited accounts of the Licensee for that period are available. Only expense deviation on accounts of uncontrollable items and controllable items subject to force-majeure are to be passed through to the consumers. Accordingly the Commission has undertaken this true-up exercise for the 1st Control Period as a first step to determining the Wheeling Tariff. The true-up for the second Control Period i.e. from 2008-09 to 2013-14 can not be undertaken as the relevant period is not yet completed…"

2.2.4 The TSERC in its Order on third control period had noted paragraph 6 of the erstwhile APERC's order. This paragraph refers to possible review by Successor Regulatory Commissions of the two states of the Order applicable for the 3rd Control Period (2014-19). This review may not be applicable to that part of the Order related to true up of the first control period as it was based on the audited accounts of the Licensees.

2.2.5 The issue to be taken in to account in the present context is segregation of the assets and liabilities of the areas transferred from TSDISCOMS to APDISCOMS. In the present filings the TSDISCOMs have adopted the ratios 82.55% (TSSPDCL) and 99.85% (TSNPDCL) as per G.O. Ms No. 24 dated 29.05.2014. These ratios could have been applied to the erstwhile APERC order on true up of first control period and this another 8 year delay in processing the issues related to the first control period could have been avoided and TSDISCOMs could have been saved from the burden of carrying cost of the true up amount (TSDISCOMs have not claimed carrying cost for this period.)

2.3.1 Notwithstanding the above, a few observations on TSDISCOMs' submissions on true up of distribution tariff for the first control period are as follows:

2.3.2 Both the DISCOMs attribute higher O&M costs to identical reasons: Wage Revision w.e.f. 01.04.2006, Actuarial Valuation Report, Leave Encashment, DA hike and new recruitment, Increase in Repairs and Maintenance cost, and Increase in travelling and vehicle hire expenses. Though both the DISCOMs attribute higher O&M costs to identical reasons the rate of increase in O&M costs was different for the two DISCOMs. While NPDCL registered 24% increase in O&M costs SPDCL registered 33% increase. This difference between the two DISCOMs need to be scrutinised.

2.3.3 In the case of SPDCL Regulated Rate Base (RRB) declined by 19.23% and Return on Capital Employed (RoCE) declined by 13.90%, and in the case of NPDCL RRB declined by 5.50% and RoCE declined by 2.74%. This difference between the two DISCOMs need to be scrutinised.

2.3.4 While both the DISCOMs had shown higher capitalisation of assets/ capital expenditure than approved by the Commission SPDCL had shown lower depreciation than allowed by the Commission and NPDCL had shown higher depreciation than allowed by the Commission. This difference between the two DISCOMs need to be scrutinised.

2.3.5 SPDCL and NPDCL treat the allocations under Special Appropriation meant for safety measures differently. SPDCL claimed to have spent Rs. 2.15 Crore higher than allowed by the commission towards safety measures of employees but included it under Repairs and Maintenance expenditure head. NPDCL claimed to have spent Rs. 7.23 Crore higher than allowed by the Commission under Special Appropriation.

2.3.6 SPDCL and NPDCL also treat non-tariff income differently. SPDCL had shown Rs. 79 Crore towards non-tariff income. In paragraph 13.7 of its filings SPDCL stated as follows: "The Hon'ble Commission has approved nil towards non-tariff income of Distribution business for the first control period in the Tariff Order. The Licensee has earned the following non-tariff income during the first control period…" NPDCL in its filing (paragraph 13.7) stated as follows: "In the First control period, the Hon'ble Commission has considered the total Non-Tariff Income of licensee as Non-Tariff Income of the Retail Supply Business head only. Accordingly, the licensee has considered the same." Both the DISCOMs need to treat different expenditure and revenue heads uniformly. The TSERC is requested to scrutinise both the TSDISCOMs' claims related to non-tariff income.

Second Control Period (2010-14)

3.1 TSSPDCL claimed Rs.194.26 Crore and TSNPDCL claimed Rs.386.50 Crore towards true up of distribution business for the Second control period.

3.2 In the case of both the DISCOMs increase in Operation and Maintenance charges is an important reason for DISCOMs' distribution business true up.

3.3 SPDCL filings have shown 23.13% higher expenditure towards O&M expenses than approved by the Commission. NPDCL has shown 48.95% higher expenditure towards O&M expenses than approved by the Commission. In the case of SPDCL actual O&M expenditure in the year 2013-14 was 103% higher than in 2019-10. In the case of NPDCL it was 125% higher. In other words, both the DISCOMs have shown more than doubling of O&M expenses within the control period.

3.4 Within O&M expenses employee expenses account for major share. TSDISCOMs in their filings claimed, "Employee expenses and A&G expenses are linked to inflation and thus escalated using (Consumer Price Index) CPI and (Wholesale Price Index) WPI. Therefore, Employee Expenses have increased owing to inflation." But employee expenses reported by DISCOMs reflect higher increase compared to inflation rate. While employees need to be protected from inflationary pressures wage hikes shall not unduly burden the electricity consumers in the State.

3.5 Repairs and maintenance expenditure of both the DISCOMs had increased substantially. NPDCL filings show that repairs and maintenance expenditure during the second control period increased at CAGR of 22.36%. SPDCL filings represent CAGR of 15%. These growth rates are much higher than the inflation rates. Even such increase in repairs and maintenance expenditure did not improve ground level performance. NPDCL filings show that 10% of the DTRs failed in 2009-10 and this failure rate increased to 15% in 2013-14. Performance of SPDCL in this regard may not be much different. The increase in DTR failure rate could be because of improper maintenance of DTRs and/or procurement of substandard DTRs. This needs to be examined.

3.6 TSDISCOMs' filings for the second control period show lower RRB and lower capital expenditure than allowed by the Commission. Depreciation claimed by both the DISCOMs was much lower than approved by the Commission. While SPDCL claimed 40.62% less depreciation

NPDCL claimed 30.15% less depreciation. Even when capital expenditure during the second control period was much lower than approved by the Commission both the DISCOMs claim higher RoCE. SPDCL is claiming 13% higher RoCE. Even adoption of higher interest rates as claimed by the DISCOMs cannot warrant such higher RoCE claims and the same needs to be closely scrutinised.

3.7 In the case of special appropriation for safety measures SPDCL in its filings claimed to have spent Rs. 76.44 Crore though the Commission had approved Rs. 25 Crore and that this expenditure was shown under capital expenditure. But this total amount was spent during three years of the control period. Similarly, NPDCL had claimed to have spent Rs. 51 crore on safety measures; but this amount was spent during first two years of the second control period. Even after spending multiples of the amount approved by the Commission towards safety measures there was no let up in fatal electrical accidents. Safety measures of TSDISCOMs needs to be subjected to third party audit.

Third Control Period (2014-19)

4.1.1 TSSPDCL claimed Rs. 2,788.45 Crore towards true up for the third control period. Within this Rs. 1,487.76 Crore were the savings not realised under UDAY. Similarly, TSNPDCL claimed Rs. 827.90 Crore towards true up for the third control period, and within this Rs. 745.08 Crore were the savings not realised under UDAY during FY 2018 and FY 2019. TSDISCOMs in their filings noted that the loans taken over by the GoTS under UDAY were released in the form of equity and the DISCOMs had to bear the burden of return on equity or interest and no benefit had accrued to the DISCOMs due to UDAY. According to Section 1.2 b) of the UDAY Agreement only 25% of the outstanding loans would be transferred as equity and the remaining 75% of the outstanding loan would be transferred as grant and debt. The present treatment of the outstanding debt of TSDISCOMs by the GoTS goes against the provisions of the UDAY Agreement and the same shall not be allowed. UDAY is meant to lessen debt burden of the TSDISCOMs. It is a matter of concern that the GoTS after enjoying the benefits under UDAY did not discharge its commitments under it and further burdened the DISCOMs. We request the Commission not to allow the plea of TSDISCOMs to recover the savings allowed under UDAY during the FYs 2018 and 2019.

4.1.2 TSDISCOMs through the information provided under Additional Information to the Commission explained that due to tax implication of release of Grant under UDAY grant part of the outstanding debt of DISCOMs was released as equity. According to this explanation according to the Companies Act grant is to be treated as profit in the books of the Company and the same is liable to be taxed at MAT of 21.34% (Tax 18.50% + Cess 2.84%). In order to avoid this tax burden grant was released as equity. From this explanation it may be understood that the State government was not averse to take over the part of TSDISCOMs' debt as grant and provide debt relief to the DISCOMs but because of tax implications under the Companies Act it had to transfer that part of debt as equity. Thus, the objective of the State Government in transferring that part of debt as equity was not to earn return on equity but avoid tax payment. Important objective of UDAY scheme is to reduce debt burden of DISCOMs. But transfer of grant part of the outstanding debt as equity and computation of RoE on this part of equity also has nullified this important objective of UDAY. In keeping the spirit of UDAY the GoTS shall forego this return on equity and provide relief to the DISCOMs as envisaged under UDAY scheme. We request the Commission to advise the GoTS to give up return on equity on that part of equity which is equivalent to grant part of the outstanding debt.

4.2 Operation and maintenance (O&M) charges claimed by TSSPDCL for the third control period is 22.34% higher than approved by the Commission. Similarly, O&M charges claimed by TSNPDCL for the third control period is 18% higher than approved by the Commission. Employee expenses, major part of O&M charges, claimed by TSDISCOMs for third control period is much higher than approved by the Commission. In the case of TSSPDCL employee expenses are 22.35% higher than approved by the Commission. In the case of TSNPDCL employee expenses are 32.16% higher than approved by the Commission. Though the DISCOMs claim that these expenses are linked to price indices growth rates of these expenses are higher than inflation rates. O&M charges, including employee expenses, need to be linked to the performance of the DISCOMs and electricity loads handled by the DISCOMs.

4.3 TSNPDCL registered 24.50% less RRB than approved by the Commission for the third control period. TSSPDCL registered 18.24% less RRB than approved by the Commission. NPDCL reported Rs. 5809 Crore less capital addition than approved by the Commission. Similarly, SPDCL reported Rs. 352 Crore less capital addition than approved by the Commission. NPDCL's RoCE for the third control period is 27.37% less than approved by the Commission. RoCE earned by SPDCL is 10.10% less than approved by the Commission. Depreciation claimed by NPDCL during the third control period is 35.20% less than approved by the Commission. All these indicators show lower capital expenditure than estimated based on capacity additions. It is to be noted that this lower capital expenditure has taken place even after introduction of 24 hour power supply to agriculture and construction of T&D network for facilitating Kaleswaram lift irrigation scheme. It is also to be noted that a good part of the newly created T&D network is under utilised. These experiences in capital expenditure highlight the need for more robust capacity addition plans in generation as well as T&D network.

Distribution Losses (%) [Excl. EHT Sales]

Year	NPDCL		SPDCL	
	Target	Actual	Target	Actual
2014-15	No tariff order	14.69	No tariff order	14.19
2015-16	12.58	14.35	11.63	12.65
2016-17	12.14	13.70	10.94	12.45
2017-18	11.93	11.96	10.78	11.66

Source: TSDISCOMs' 2018-19 RST Filings

4.4 In the case of distribution losses the above table shows that the TSDISCOMs fall short of the targets set by the Commission. In this context it has to be noted that the above distribution loss figures were arrived in the background of inflated agriculture consumption figures. The above high distribution losses have taken place even after substantial increase in capital expenditure on T&D network expansion and higher than approved expenditure on O&M charges. This demands critical evaluation of functioning of DISCOMs in the State.

4.5 In the case of safety measures TSNPDCL has spent only Rs. 52 Crores under safety measures during the control period though the Commission approved Rs. 293 Crores towards Special Appropriation for Safety Measures for the Third MYT Control Period. TSSPDCL also spent only Rs. 80.60 Crores though the Commission approved Rs. 200 Crores towards Special Appropriation for Safety Measures for this period.

4.6.1 The Commission in its wheeling tariff order dated 27th March, 2015 for Distribution

Business for 3rd Control period while approving the special appropriation for safety measures issued the following directive: "The Commission directs both the DISCOMs to prepare action plan as per the direction given below: To prepare a safety improvement plan for four years (FY 2015-16 to FY 2018-19) relating to distribution network with the amount provided for each DISCOM and file the same with the Commission by 31st August 2015 for approval. Upon approval of such safety improvement plan by the Commission, the DISCOM may implement the project. Non compliance of this directive may lead to claw back of the amounts provided with carrying cost apart from disallowing the compensation/ex-gratia amounts paid on account of accidents occurred due to poor network." (Paragraph 33) We request the Commission to direct the TSDISCOMs to place the Safety Improvement Plans prepared by them in the public domain.

4.6.2 In spite of the directives issued by the Commission and steps taken by the DISCOMs number of fatal electrical accidents were on the rise during this control period. In this background we request the Commission to order a third party safety audit of DISCOMs' T&D network in the State.

Fourth Control Period (2019-20 & 2020-21)
Annual performance review FY 2019-20:

5.1.1 In accordance with the Directive No. 2 of the Commission's Wheeling Tariff Order for Distribution Business for the fourth control period TSDISCOMs have filed annual performance review for FYs 2019-20 and 2020-21.

5.1.2 TSSPDCL claimed true up of Rs. 193.54 Crores for the FY 2019-20. Higher depreciation shown by SPDCL than approved by the Commission mostly accounts for this true up claim of SPDCL. SPDCL has shown Rs. 227.02 Crore higher depreciation than approved by the Commission for FY 2019-20. In accordance with Directive No. 4 of the Commission TSSPDCL submitted depreciation calculations in accordance with CERC Tariff Regulations, 2019. According to this computation depreciation is less by Rs. 91.19 Crore.

5.1.3 TSNPDCL has shown a surplus of Rs. 277.78 Crore in distribution business as a part of its annual performance review for FY 2019-20. In spite of this surplus, NPDCL has shown Rs. 70.48 Crore higher depreciation approved by the Commission. When computed in accordance with CERC Regulations depreciation would be lower by Rs. 103.18 Crore than approved by the Commission.

5.1.4 While TSNPDCL claimed that it had spent Rs. 45.64 Crores towards safety measures TSSPDCL claimed that it had spent Rs. 21.65 Crore towards safety measures. The Commission approved Rs. 20 Crore for each DISCOM.

Annual performance review FY 2020-21:
5.2.1 For the FY 2020-21 while NPDCL has shown surplus of Rs. 286.57 Crore SPDCL has shown surplus of Rs. 115 Crore. SPDCL has shown Rs. 216 Crore higher depreciation than allowed by the Commission. If CERC Regulations are used this depreciation will be Rs. 137 Crore lesser than approved by the Commission. NPDCL in its filing followed CERC Regulations to calculate depreciation and has shown it to be Rs. 102.19 Crore less than approved by the Commission. SPDCL in its filing sought time to adopt CERC Regulations for computing depreciation. As NPDCL has already adopted the CERC Regulations the same shall be applicable in the case of SPDCL also.

5.2.2 In the case of expenditure towards safety measures during the FY 2020-21 NPDCL reported Rs. 19.85 Crore expenditure and SPDCL reported Rs. 7.27 Crore. SPDCL attributed lower expenditure to lockdown conditions. During the FY 2020-21 the number fatal electrical accidents involving humans stood at 698. While NPDCL accounted for 460 fatal accidents SPDCL accounted for 238 fatal accidents. This is the highest number of fatal accidents in the recent past. The last highest number of fatal accidents were 678 in FY 2016-17. It may not be out of place to mention that lockdown restrictions did not apply to essential services like electricity. The increasing fatal electrical accidents and non-serious attitude of DISCOMs towards safety issues demand a third party safety audit of T&D network in the state.

We request the Commission to take our above submission on record.

Thanking you.

Sincerely yours,

M. Thimma Reddy.