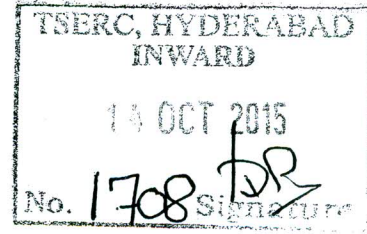


For perusal
Secretary
Member/T
Member/F
Chairman



To  
The Secretary  
Telangana State Electricity Regulatory Commission  
5<sup>th</sup> floor, Singareni Bhavan, Red Hills  
Hyderabad 500 004

October 14, 2015

Respected Sir,

Sub : Submission of comments, objections and suggestions on the power purchase agreement between Southern Power Distribution Company of Telangana Limited (TSSPDCL) & Northern Power Distribution Company of Telangana Limited (TSNPDCL) and Chattisgarh State Power Distribution Company Limited (CSPDCL) for purchase of 1000 MW for a period of 12 years.

With reference to your public notice on the subject issue in O.P.No.93 of 2015, I am submitting the following points for the consideration of the Hon'ble Commission:

1. Under functions of the State Commission, section 86 (1) (b) of the Electricity Act, 2003, says: "regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the State."
2. Para 6.1 of the National Electricity Policy dated 12<sup>th</sup> February, 2005, says: "The Act seeks to encourage competition with appropriate regulatory intervention. Competition is expected to yield efficiency gains and in turn result in availability of quality supply of electricity to consumers at competitive rates."
3. Para 6.1 of National Tariff policy dated 6<sup>th</sup> January, 2006, says emphatically: "...power procurement for future requirements should be through a transparent competitive bidding mechanism using the guidelines issued by the Central Government vice gazette notification dated 19<sup>th</sup> January, 2005."
4. Contrary to the above-explained legal requirements for purchase and procurement of power by distribution licensees, TSSPDCL and TSNPDCL have entered into a PPA with CSPDCL of Chattisgarh Government, not through the process of competitive bidding, but based on a memorandum of understanding the Government of Telangana had with the Government of Chhattisgarh. In the undivided Andhra Pradesh, we have seen and are still facing the disastrous consequences of paying avoidable and additional burdens to private power projects with whom the Discoms had long-term PPAs, as in the cases of the projects of GVK, Spectrum and now HNPCL of the Hindujas, that were selected through the MoU route in the early 1990's. Entering into PPAs with a Discom of another State Government through MoU route cannot be justified mechanically, simply on the

ground that it is based on an MoU between the two Governments concerned. How disastrous the consequences be and how detrimental the terms and conditions of such a PPA be can be understood from the agreement the Government of A.P. had with NTPC and the PPA AP Discoms had with the latter for purchase of solar power from its proposed 1000 MW unit in Anantapur district. Therefore, in view of such bitter experience, a PPA cannot be a virtue by itself and justified, ipso facto, on the basis of an agreement between the Governments concerned. Legal requirements, and various factors need to be examined thoroughly to protect larger consumer interest.

5. Long-term PPA between Discoms of different Governments, that, too, through MoU route, is uncommon. Inter-Discom purchases always tend to be temporary in nature to meet immediate, not medium-term or long-term, requirements of demand for power. Long-term PPAs are invariably between generators of power and distribution licencees, as experience confirms.
6. Under the subject PPA, power generated by Marwa Thermal Power Station of Chattisgarh State Power Generation Company Limited (CSPGCL) will be supplied to CSPDCL as per the PPA they had between them and the tariff will be determined by the Chattisgarh State Electricity Regulatory Commission (CSERC). Though the PPA between CSPDCL and CSPGCL is for a period of 25 years, CSERC determines the tariff for every contract year. As per the terms of the subject PPA, Telangana State Discoms have to pay the tariffs for purchase of power as determined by CSERC from time to time. As experience in the country and the undivided A.P. shows, when long-term PPAs are entered into between a generator of power and a distribution licensee or licensees and consent of the appropriate Regulatory Commission is sought and obtained for the same, tariff is determined on levelised basis and made applicable for the entire period of the PPA. With relevant terms and conditions coming into force, for any variations in terms of fixed and variable costs and other factors during the course of the term of the PPA, they are being calculated as per the applicable terms and conditions. The licensees can seek fuel surcharge adjustment or true up of such variations periodically as permitted by appropriate Commission.
7. In the subject PPA, tariff to be paid by the Telangana Discoms is not quantified specifically. Without examining the tariff and the basis for determining the same, it cannot be justified mechanically. Article 5.1.1 of the PPA says: "The Tariff for the Aggregate Contracted Capacity supplied from the Power Station would be as determined by the Hon'ble Chattisgarh State Electricity Regulatory Commission (CSERC) from time to time as per the provisions of the Electricity Act, 2003, and the terms of the power purchase agreement between CSPGCL and CSPDCL dated 03 January 2011.." Article 5.1.2 says: "The Tariff shall comprise of Capacity/Fixed Charge, and Energy/Variable Charges, as indicated in Schedule-4 and, shall be borne by the Procurers." In other words, the procurers, i.e., TSSPDCL and TSNPDCL, did not have any say in the determination of tariff. Once the TSERC gives its consent to the PPA between the

TelanganaDiscoms and CSPDCL, the former will not have any say in determination of tariff; they have to simply pay the tariff as determined by CSERC from time to time. What kind of changes would take place during the 12-year PPA period and what kind of true ups CSPGCL and CSPDCL would seek in relation to the PPA between them is unpredictable. In other words, uncertainty relating to tariff would continue to hang on the heads of the TelanganaDiscoms, with a binding obligation to bear the impact of all such changes in tariff that would come into effect from time to time as determined by CSERC. Going by the Tariff Order issued by CSERC for the year 2015-16 for CSPDCL, the tariff for 1<sup>st</sup> and 2<sup>nd</sup> units of Marwa project is shown as Rs.3.14 per kwh (page 205 of Tariff Order).

8. Article 5.1.2 further says: "In addition to the Tariff, a Trading Margin as approved by the TSERC, shall also be payable by the Procurers to the Supplier. Any other charges i.e., including but not limited to transmission, wheeling charges, open access charges, etc., incidental to the sale of the Aggregate Contracted Capacity by the Supplier to the Procurers under this Agreement, shall be borne by the Procurers in addition to the Tariff." Article 5.1.3 says "All taxes levied by competent authority, electricity duty, cess or otherwise any levy, by whatever name or names called or either described by an Indian Governmental Instrumentality, in respect of the energy generated by the Developer, including cess or on Auxiliary Consumption or any other type of consumption, including water, environment protection shall be paid for by the Supplier, and reimbursed by the Procurers. Applicable service charges on the Trading Margin, if any, shall also be borne by the Procurers." When all these and such other elements come into effect, the total tariff to be paid by the TelanganaDiscoms would increase from time to time. Except determining trading margin to be paid by the TelanganaDiscoms to CSPDCL, in addition to the tariff determined by CSERC, TSERC, too, will have no role to play in determination of tariff and related issues, as per the terms and conditions in the subject PPA. Adding to these costs, TelanganaDiscoms have to bear transmission losses from "the Delivery Point", besides having the obligation and responsibility "to make the required arrangements for evacuation of electricity onwards from the Delivery Point." Needless to say, the electricity duty, etc., to be paid on sale of that power in Telangana will be extra. How much would be the final tariff, including all these costs, is anybody's guess, with elements of uncertainty and possible changes that may come into effect from time to time.
9. In the documents submitted by the Discoms to the Hon'ble Commission, as is evident from its website, they have not provided any load forecast, including demand growth, addition of installed capacity, transmission and distribution capacity, on a medium-term or long-term basis to justify the need for procurement of power from Chattisgarh for a period of 12 years. Hon'ble Chief Minister Sri K.Chandrasekhar Rao has been making statements repeatedly that our State would become power-surplus within three years, i.e., by the middle of 2017. Moreover, the Government of Telangana and its Discoms have

reportedly communicated to Southern Regional Load Dispatch Centre that they won't require their share of power from projects like HNPCL of Hindujas in Visakhapatnam and DamodaramSanjeevayya Thermal Power Project of AP Genco in Nellore district. When such is the case, where is the need for purchasing power from Chattisgarh on a long-term basis for 12 years? Even going by the need for meeting immediate requirements for power in Telangana, at least till the State becomes power-surplus, when would transmission corridor be available for evacuation and transmission of power from delivery point of Marwa project to the border of Telangana? Did the Discoms already book transmission corridor from Central Transmission utility and State Transmission utility concerned for this purpose?

10. Irrespective of the merits or otherwise of the subject PPA, competitive bidding for procurement of power from generators on a long-term basis would have ensured competitive tariff, avoiding elements of uncertainty, as well as need for paying trading margin additionally.
11. Before seeking comments, objections and suggestions on the subject issue, the Hon'ble Commission should have sought and obtained all the relevant information, including capital cost of 1000 MW Marwa project, sources of coal supply, its allocation, etc. from the Discoms, as explained above and otherwise, and make it available to the public on its web site. Even now, that is very much necessary to make further meaningful and purposeful suggestions and objections in the larger consumer interest. Therefore, I request the Hon'ble Commission to seek all the relevant information on the subject issue from the Discoms and make it available to the interested public and hold a public hearing on the subject PPA.

Thanking you,

Yours sincerely,

M. VenugopalaRao



Senior Journalist & Convener,

Centre for Power Studies

H.No.7-1-408 to 413, F 203

Sri SaiDarsan Residency

Balkampet Road, Ameerpet

Hyderabad – 500 016

E mail : [vrmummareddi@gmail.com](mailto:vrmummareddi@gmail.com) Cell No. 9441193749