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To

The Secretary
A.P. Electricity Regulatory Commission
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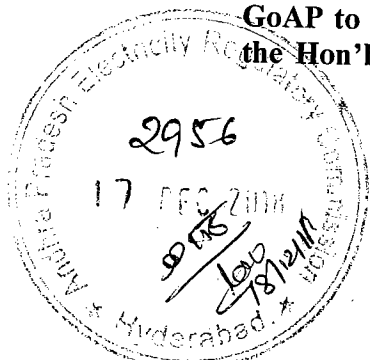
December 5, 2018

Respected Sir,

Sub : Submission of objections and suggestions on the ARR and tariff proposals of APSPDCL and APEPDCL for their retail supply business for the year 2019-20

With reference to the public notices dated 29.11.2018, inviting suggestions/objections on the ARR and tariff proposals of the two AP Discoms in O.P.Nos. 26 & 27 of 2018, I am submitting the following preliminary points for the consideration of the Hon'ble Commission:

1. APSPDCL and APEPDCL have projected a revenue requirement of Rs.38,204 crore - Rs.24,464 crore for SPDCL and Rs.13,740 crore for EPDCL - for the year 2019-20. They have also projected a total revenue of Rs.29,241 crore, including non-tariff income, at current tariffs applicable - Rs.17,488 crore for SPDCL and Rs.11,754 crore for EPDCL - for the same year. While SPDCL has projected a revenue gap of Rs.6,976 crore, EPDCL has projected a revenue gap of Rs.1,987 crore - a total revenue gap of Rs.8,963 crore for both the Discoms. The Discoms have proposed a hike of Rs.0.40 per kvah and Rs.90.00 per KVA per month to Railway traction. They have informed that, as per G.O.Rt.No.75 dated 27.6.2018, they have been extending free supply of power to dhobi ghats. As per G.O.Rt.No.39 dated 14.3.2018, the Discoms have been providing free supply of power to rural horticulture nurseries. As per the directions of the GoAP, the Discoms have proposed a reduction of Rs.1 per kwh for electric vehicles/charging stations. Barring these changes, the Discoms have not proposed any tariff revision to other categories of consumers and claimed that non-revision of tariff would benefit 1.76 crore consumers in the State. Since the tariff revision has to come into force from 1.4.2019, i.e., before the next general elections to the Lok Sabha and the State Legislative Assembly, the Discoms have not proposed any tariff hike, except for the Railways, obviously, at the behest of the GoAP, as they did for the year 2018-19. Whatever be the pre-election political expediency of the party-in-power in Andhra Pradesh, in taking such a stand relating to tariff revision, it is a welcome step, as far as larger consumer interest is concerned. However, projection of such a huge revenue gap calls for a thorough examination of the root causes for the same and the remedial measures required to be taken to the extent possible.
2. The Discoms have not explained or made any proposals as to how they would bridge the huge revenue gap projected, with the implication that they expect the GoAP to provide the subsidy required as per the revenue gap to be determined by the Hon'ble Commission, as is the case for the year 2018-19. Since the Discoms



have not made it clear as to how they would propose to bridge the projected revenue gaps for the year 2019-20, 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 GoAP 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 2019-20 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 2019-20, barring for the Railways, the question of considering regulatory asset does not arise.

3. The projections of the Discoms, especially relating to availability of energy and surplus energy available, are manipulative, defective and contrary to the submissions made by them on long-term load forecast, etc., and before the Hon'ble Commission during public hearings on different issues. As such, it can be presumed that the Discoms have submitted the subject proposals as prepared by their private consultants, and that seems to be the reason for the kind of dichotomy between the projections in the ARR for 2019-20 and the submissions the Discoms themselves made earlier before the Hon'ble Commission. Even after the experience of more than two decades in preparing and submitting ARR proposals to the Hon'ble Commission, it is unfortunate that the Discoms are forced to continue to depend on private consultants for the purpose, without adequate in-house expertise being developed and utilised in the power utilities of the GoAP. This manipulative dichotomy also indicates that the Discoms are constrained to follow the questionable diktats of the powers-that-be for extraneous considerations.
4. Both the Discoms have shown availability of 68,583.87 mu for the year 2019-20. The Discoms have shown energy requirement of 67713 mu - 24,606 mu for APEPDCL and 43,108 mu for APSPDCL - and a surplus of 870 mu. These figures are manipulative for the following reasons, among others:
 - a) In their latest reports on long-term load forecast, etc., submitted to the Hon'ble Commission, both the Discoms and AP Transco have projected availability of 77,998 mu, input of 66,313 mu and a surplus of 11,685 mu for the year 2019-20.
 - b) As per the interim order issued by APTEL, the Discoms have to purchase power from the project of HNPCL (1040 MW), if it fits into merit order, and the Discoms already started purchasing power from this plant. We had already pointed out that, after public hearing on the PPA, etc., of the project of HNPCL was concluded and reserved for orders by the Commission, the Discoms, obviously, at the behest of the Government of A.P., had withdrawn the PPA with the permission of the Commission, with a view to justifying requirement of power from private projects like Simhapuri, Lanco, Spectrum, Richmond, etc.,

by avoiding availability of power from HNPCL, and that, if HNPCL gets a favourable order finally, the Discoms can simply claim that in view of such binding orders of APTEL, and the Supreme Court, they will be constrained to purchase power from HNPCL to the extent of 7288.32 mu per annum. This approach of the GoAP is irresponsible, if not downright cunningness. As long as the interim order of the APTEL continues to be in force, the Discoms have to take into account availability of 7288.32 mu from HNPCL and they cannot ignore it on the presumption that final order of APTEL and of the Supreme Court would go against HNPCL.

- c) APERC has already given its consent to the PPA the Discoms had with Simhapuri project (400 MW) and energy of 2803.20 MU per annum is available to them from this project.
- d) Availability of power from HNPCL and Simhapuri are not taken into account by the Discoms both in their reports on long-term load forecast, etc., and in their ARR submissions for the year 2019-20.
- e) If availability of power from HNPCL and Simhapuri is taken into account for the year 2019-20, the revised availability of power for the same year as per projections in reports of long-term load forecast, etc., would work out to 87,089 mu. As such, against a projected requirement of 66,313 mu, the surplus energy available for the year 2019-20 would be 20,776 mu, i.e., 31.33 per cent!
- f) If availability of power from HNPCL and Simhapuri (9091.52 mu) is taken into account for the year 2019-20, the revised availability of power for the same year as per projections in the ARR would work out to 77,675.39 mu. As such, against a projected requirement of 67,713 mu, the surplus energy available for the year 2019-20 would be 9962 mu. As per the projections made in the long-term load forecast, availability of power would work out to 87,089 mu (77998+9091) and surplus will be 19,376 mu against projected requirement of 67,713 mu.
- g) The proposal of the Discoms to get power on swapping basis to the tune of 4121.85 mu, especially from Sembcorp, is made, obviously, at the behest of the powers-that-be, to do undue favour to the private developer by deflating availability of power. In its letter dated 29.5.2018 relating to long-term load forecast submitted to the Commission, APEPDCL has pointed out that with the present generation mix, the Grid demand is being met without any hassles. Power exchanges are fully operational and are offering different products such as Day ahead, Day ahead contingency, intra day, term ahead, etc., and there is a lot of flexibility to the power procurement team to meet the occasional deficits in any time periods/blocks or to manage the surplus by means of sell out through exchange, EPDCL has explained. Therefore, the contention of the Discoms in their ARR proposals that there will be a gap between demand and availability for the year 2019-20 and that they propose to bridge this gap by short-term procurement from Sembcorp Gayatri Power Limited and through power

exchanges keeping in view that PPA signing with SGPL under DBFOO is under process and the tariff of the same is lower than the average cost of power in the Exchanges is untenable. Further, the submission of the Discoms that there is uncertainty on the availability of sufficient power in the exchanges goes contrary to the submission of APEPDCL in its letter dated 29.5.2018 quoted above. The Discoms have also submitted that if there is an alternate source of power cheaper than this (SGPL), the same would be preferred and that this proposed procurement would only be an option but not a compulsion. This position taken by the Discoms has several questionable implications which we can articulate during the public hearings. For the present, suffice it to say that no power is required from SGPL during 2019-20 even under swapping.

- h) The Discoms have shown availability of power from Lanco and Spectrum, although no consent is given by the Commission for purchasing the same for the year 2019-20. On the 1st December, 2018, during the public hearing on the PPA of Lanco, the learned counsel for the Discoms has sought time again to determine whether power from Lanco is required and the Hon'ble Commission has directed the Discoms to come before it by the next hearing with their final stand, maintaining that if they do not require power from Lanco, they can withdraw the petition seeking consent of the Commission. The learned counsel has also admitted that several valid objections were raised by the objectors in the petition. The same position holds good in the case of Spectrum also, even though no PPA is submitted to the Commission for its consent.
- i) Even without power from Sembcorp on short-term and swapping basis (4121.85 mu) and from Lanco and Spectrum, the Discoms still will have substantial surplus power available during 2019-20. Without justifying need for power from the projects, in the present context, of Sembcorp, Lanco and Spectrum, without following competitive bidding to ensure competitive tariffs and without getting consents of the Commission, the Discoms are being forced by the powers-that-be to adopt the questionable way of proposing to purchase power from such projects in their ARR submissions, while ignoring, in an equally questionable manner, their binding obligations to purchase power from projects like HNPCL and Simhapuri in view of the interim order of APTEL and the order of APERC, respectively, reflecting their scant respect for meeting regulatory requirements.
- j) Discoms have submitted that gas-based power plants of GVK extension (220 MW), GMR Vemagiri (370 MW), Gautami (464 MW) and Konaseema (444.08 MW) with whom they had long-term power purchase agreements are stranded due to unavailability of gas and hence not considered for future calculations. They could not provide any substantiation or justification for the presumed continuance of unavailability of natural gas to these plants in future. As and when supply of natural gas to these plants re-commences, the AP Discoms will get their share of 46.11% (690 MW) and 4835.52 mu per annum from these plants at 80 per cent PLF. Therefore, presuming unavailability of natural gas to these projects, and the resultant non-generation and non-supply of power from

them, it would be imprudent to enter into long-term PPAs with other power plants, because, once the four power plants get supply of natural gas, availability of power to the Discoms from these projects materialises and overall availability of surplus energy would increase, with attendant burdens of paying fixed charges for backing down.

- k) The Discoms have not explained the percentage of PLF they have taken into account while working out availability of thermal power from the projects of AP Genco and the Central Generating Stations. If they have taken the threshold level of PLF much below PLFs shown in the respective PPAs, under the pretexts like presumed continuance of inadequate supply of coal, then the availability of power from those projects need to be re-worked out based on threshold levels of PLF.
 - l) While the Commission had approved availability of thermal power from AP Genco for the year 2018-19 to the tune of 19937 mu, without taking into account availability of 9223 mu from SDSTPPS I and II, the Discoms have projected availability of 24,017 mu from thermal projects of AP Genco for the year 2019-20. If availability from SDSTPPS I & II of 9223 mu is taken into account, on the basis of availability determined for the year 2018-19, the availability of energy for 2019-20 would work out to 29160 mu. In other words, the Discoms have arbitrarily deflated availability of thermal power from AP Genco, including SDSTPPS, to the tune of 5143 mu (29160-19937 mu) for the year 2019-20, without any explanation and justification.
 - m) The scope for reduction of demand in view of increasing open access consumption, energy conservation measures, inflated demand for agriculture and some other categories of consumers, and the projected higher rate of demand growth for the year 2019-20, etc., need to be re-examined objectively and demand determined realistically.
5. We request the Hon'ble Commission to direct the Discoms to submit their proposals on what they would do with the available surplus power - to what extent they can sell the surplus power and at what prices. We also request the Hon'ble Commission to direct the Discoms to submit the details of fixed costs to be paid for backing down the surplus energy, if they are not able to sell the same during 2019-20, and also details of backing down and fixed costs paid therefor during 2017-18 and 2018-19.
6. The Discoms have projected availability of NCE during 2019-20 to the tune of 16,769 mu against availability of 12622 mu during 2018-19. We request the Hon'ble Commission to direct the Discoms to provide us the information relating to the PPAs under which they propose to purchase the projected NCE and whether they have projected availability, if any, of NCE without PPAs and without getting consent of the Commission to the PPAs, if already signed, and the rates at which they agreed to purchase NCE from different projects.

7. In view of the above submissions, among others, it is clear that availability of power and surplus energy would exceed the projections made by the Discoms in the ARR and demand would be reduced. Therefore, we request the Hon'ble Commission, to direct the Discoms to re-work out their projections of availability, demand and surplus of energy realistically, especially taking their binding obligations like purchasing power from HNPCL and Simhapuri into account, and the resultant substantial changes in their revenue requirements and revenue gaps for the year 2019-20, submit the same to the Commission and make the same available to us well before the proposed public hearings on the subject issues to enable us to study the same and make further purposeful submissions. Even for the Hon'ble Commission, it is necessary to have such realistic information and data to determine objectively various projections as a part and parcel of its regulatory process.
8. We also request the Hon'ble Commission to direct the Discoms to submit their claims under true-up for the year 2017-18, without further delay, as auditing of their accounts for that year must have been completed already.
9. We request the Hon'ble Commission to permit us to make further submissions on the subject issue after receiving and studying the information sought above, and to take the above-mentioned submissions as a part and parcel of our overall submissions. We also request the Hon'ble Commission to permit us to make further submissions in person during the public hearings on the subject issue.

Thanking you,

Yours sincerely,



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