

**The Federation of Andhra Pradesh Chambers of Commerce
and Industry (FAPCCI)**

Statement of Objections

on the

**Petitions for Determination of True up for Retail
Supply Business for FY 2018-19 in accordance with
the "Andhra Pradesh Electricity Regulatory
Commission (Terms And Conditions for
Determination of Tariff for Wheeling and Retail Sale
of Electricity) Regulation No.4 of 2005 and
amendments thereof" by the**

**Southern Power Distribution Company of AP Ltd.
(APSPDCL)**

&

**Eastern Power Distribution Company of AP Ltd.
(APEPDCL)**

As Retail Supply Licensee

December, 2019

Preliminary Observations on I.A. No. 26 of 2019 in O.P. No. 60 & 61 of 2017 filed by APSPDCL and APEPDCL in the matter of Determination of True-up for Retail Supply Business for FY 2018-19

STATEMENT OF OBJECTIONS:

The distribution licensees namely **Southern Power Distribution Company of A.P. limited** (hereinafter referred to as the 'APSPDCL' or 'AP DISCOM' or 'Petitioner' or 'distribution company' or 'Licensee') and **Eastern Power Distribution Company of A.P. Limited** (hereinafter referred to as the 'APEPDCL' or 'AP DISCOM' or 'Petitioner' or 'distribution company' or 'Licensee') have filed the True-up Petitions for the Retail Supply Business for FY 2018-19 purportedly in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation No.4 of 2005 and its First Amendment notified in 2014 namely Regulation No. 1 of 2014 (hereinafter collectively referred to as 'Tariff Regulations').

The Statement of Objections is herein being filed on behalf of '**The Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI)**', an Association which was started in 1917 as a Chamber of Commerce and currently has around 3000 members, having its office at Vijaywada, A.P., India; represented by its Secretary (hereinafter called the 'Objector'). The main function of FAPCCI is to promote and protect the interests of trade, commerce and industry in the state of Andhra Pradesh.

The Objector has thoroughly gone through the claims and submissions of the Petitioner companies and has found several anomalies that should be of grave concern to the stakeholders. The Objector strongly objects to the claims of Licensees in the present Trueup Petitions for the Retail Supply Business for FY 2018-19 (herein after referred to as the 'Tariff Petitions' or 'Petitions' or 'Subject Petitions') and prays that the True-up Application may be rejected *in limine*, in the interest of justice and equity.

1. LACK OF DATA/INFORMATION IN TARIFF FILINGS

a. Excel formats for tables given in the Petition

APSPDCL and APEPDCL have submitted a pdf write-up in respect of their True up claims. The claims are neither backed by detailed rationale nor supported by the excel workings, which are pertinently required for any stakeholder to understand and analyse them. By not furnishing the detailed workings, the Petitioners intend to thwart the objectives of transparency and wide consumer participation in the process. This also makes the entire process a futile exercise wherein the stakeholders have been provided minimal information to deliberate upon.

It is also pointed out that there is no information as far as truing up of distribution costs are concerned. The Tariff Regulations clearly provide for sharing of gains on account of variations in the 'controllable parameters' of ARR. The relevant clause 10.6 of the Regulation in this regard is extracted below:

10.6 Sharing of gains and losses on variations in "controllable" items of ARR;- The Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement. A statement of gain and loss against each controllable item will be presented after adjusting for any variations on account of uncontrollable factors.

2. **Audited Accounts** – The Petition is not accompanied by audited financial statements of the Discoms which is a pre-requisite for any truing up exercise.
3. **Actual Subsidy received from GoAP** – In Para 7 of the Petition, the Discoms have presented data in respect of Revenue from Tariff and Non-tariff incomes. But the subsidy has been specifically excluded from such number. Subsidy ought to have been added in such revenue as it is integral part of the ARR.
4. **Government Subsidy towards Agricultural Consumption** – The sales to agricultural consumers has been higher by around 1200 MU. This necessitates

increased subsidy support from the State Government. However, the True-up Petitions do not provide for the same. The industrial consumers cannot be expected to first have tariffs at 120% of the ACOS (and even higher in most cases) and then share additional burden due to shortfall in subsidy support due to increased Agricultural consumption.

5. **Market Purchases** – As against Nil market purchases (bilateral and Power Exchange), the actual market purchases have been to the tune of 5,544 MU at a cost of Rs. 2,774 crore. Thus, this is the most significant element of the true-up claimed by AP Discoms. In the Tariff Order for FY 2018-19, the Commission had given a directive that approval ought to be obtained from the Commission should the Discoms procure energy over and above the quantum approved in the Tariff Order. It is not clear from the submissions of the Petitioner if the aforesaid directive has been adhered to, in case of costly market purchases.
6. **Consumer Category wise Sales** – The Petitions do not provide any data with respect to consumer category wise sales which ought to have been submitted.
7. **True-up should be on all aspects of ARR** – True-up should be conducted for all ARR items included interest on loan, depreciation, return on equity, etc. Such aspects have not been covered in the instant petition.


PRAYERS:

- Pass necessary orders as may be deemed appropriate in the facts and circumstances of the case in the interest of justice
- Permit the Objector to participate and make additional submission and produce additional details and documentations during the course of the Public Hearing, in the interest of justice and equity.

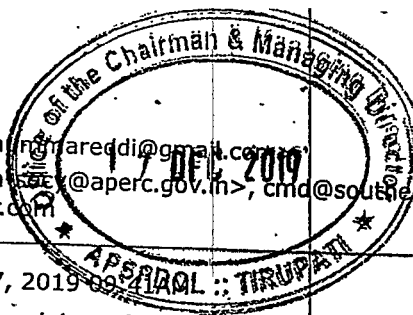
Date: December 19, 2019

Place: Hyderabad

Deponent


T. Sujatha

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CGM (Proj & IPC)	ED (Opn)
CGM (HRD)	CGM/RAC
CGM (P&MM & Civil)	CGM (E&C)
CGM (Plg.)	CGM (R&IA)
	CE/EC
DIR (Tech)	DIR (Fin)
	CMD

Date: Tuesday, December 17, 2019 09:41 AM
Subject: Submissions on true up claims of AP Discoms for the year 2018-19

Sir

Am forwarding my submissions on true up claims of AP Discoms for the year 2018-19 in IA No.26 of 2019 in OP.Nos.60&61 of 2017. Please take the same on record.

Regards

Mummareddi Venugopala Rao
040-23737404

Attachments:

True-up for 2018-19 APERC 15.12.2019.docx

GM/RAC
20/12

EE/RAC

14
20/12

DEE/RAC

26/12

AEE

26/12

To
The Secretary
A.P. Electricity Regulatory Commission
4th floor, Singareni Bhavan, Red Hills
Hyderabad - 500 004

December 17, 2019

Respected Sir,

Sub : Submission of views and objections on the true-up claims of AP Discoms for the year 2018-19 to the tune of Rs.4341.95 crore in I.A.No.26 of 2019 n OP Nos. 60 & 61 of 2017

With reference to your public notice dated 25.11.2019, inviting views and objections on the subject claims, I am submitting the following points for the consideration of the Hon'ble Commission:

1. APSPDCL and APEPDCL, being independent entities should have submitted their true-up applications separately. However, a common application is filed by both the Discoms for the year 2018-19, claiming revenue true-up of Rs.4341.95 crore - Rs.1538.20 crore for EPDCL and Rs.2803.75 crore for SPDCL - with expense true-up of Rs. 3989.61 crore, and revenue true-down of Rs.112.88 crore with a carrying cost of Rs.465.21 crore at an interest rate of 12% considering FY 2019-20 as the year of approval. Whatever be the true-up amounts the Hon'ble Commission is going to approve, its impact on consumers should be confined to the respective true-up amounts of the Discom concerned. It should not be an average for the entire State.
2. Against the energy despatch of 60,843 MU approved by the Hon'ble Commission for the year 2018-19, the Discoms have shown that they have procured 61,678 MU, i.e., there is a higher purchase of power by 835 MU. However, they have shown payment of fixed charges of Rs.8005 crore against Rs.8349 crore approved by the Commission. But, they have shown payment of variable charges of Rs.22,227 crore against Rs.17,576 crore approved by the Commission. Overall, they have shown that cost of power purchase increased by Rs.4311 crore. Compared to 9223.28 MU approved by the Commission, the Discoms have shown purchase of only 6469.54 MU from SDSTPS stages I & II of APPDCL. Similarly, the Discoms have shown purchase of 12,939.38 MU only from the central generating stations against the quantum of 14,750.04 MU approved by the Commission. They have purchased 800.20 MU only from KSK Mahanadi against 2500.01 MU approved by the Commission. The Discoms have stated that there was less procurement from APPDCL thermal stations to the extent of 2754 MU due to the reasons attributable to coal and logistics, without specifically explaining what those reasons attributable to coal and logistics are. They have not given any explanation about lesser purchase of power from CGSs and KSK Mahanadi. Did the Discoms claim and collect liquidated damages from the power stations concerned for lesser supply of power as per the terms and conditions in their respective PPAs, wherever applicable?

3. The Discoms have submitted that from market sources a quantum of 5544 MU has been procured out of which 3295 MU is through swapping arrangement from other States such as Punjab, Delhi and Haryana during the period November, 2018 to March, 2019 with a condition to return the power during June to September, 2019. At the same time, in the annexures, the Discoms have shown that for swapping of energy of 3295.27 MU, they have incurred a cost of Rs.1244.97 crore and for purchasing 1817.42 MU from short-term sources they have incurred a cost of Rs.1207.07 crore. They have not shown from whom they have purchased the balance of 432.89 MU. The Discoms have failed to give details pertaining to the kind of procedure they followed for purchasing 2249 MU from the market, per unit cost and quantum of power from different sources. It needs to be clarified by the Discoms whether additional purchases on such a higher scale were made by them without seeking prior consent of the Hon'ble Commission, both in terms of quantum and cap for tariffs to be paid, and the procedure to be adopted for such purchases to ensure competitive tariffs. Since the Discoms had not sought and got permission of the Hon'ble Commission for purchasing additional power from the market sources, maximum cap of tariff and the procedure to be adopted for competitive bidding for such purchases, it reflects "executive arrogance" of the powers-that-be who handled such purchases from Vidyuth Soudha. It is a negation of the directions given periodically by the Hon'ble Commission on additional power purchases to be made by the Discoms and reflects recklessness of the powers-that-be that they need not seek prior permission of the Commission for such purchases and their contempt for regulatory requirements and questionable approach that the Commission would or should give its consent to such purchases as and when they seek.
4. Though they have purchased lesser quantum of power from the central generating stations compared to the quantum approved by the Commission, the Discoms have claimed that they have paid higher fixed charges to Talcher stage II, NTPC Simhadri stage II and to AP Genco projects of Dr NTPS stages I to IV and RFP stages I to III. Fixed charges being fixed in nature, they cannot increase for purchase of the quantum of power approved by the Commission, certainly not for purchasing lesser quantum of power compared to the quantum approved by the Commission. Therefore, the moot point is whether the Discoms backed down capacities of the CGSs and stations of AP Genco and paid fixed charges therefor. If so, what are the quantum of power backed down and the fixed charges paid therefor by the Discoms to CGSs and AP Genco?
5. The Discoms have shown that they have purchased 12,772.20 MU of NCE against 12,622.59 MU approved by the Commission for the year 2018-19 and paid an additional sum of Rs.107.17 crore. Did the Discoms back down thermal power in order to purchase high-cost and must-run non-conventional energy of 12,772.20 MU, far exceeding their obligations under RPPO, and pay fixed charges for such backing down? If so, what are the costs per unit of NCE purchased, unit-wise, and per unit cost of power from thermal stations backed down, station-wise?

6. The Discoms have submitted that that the weighted variable cost for 2018-19 increased by Rs.0.71 per unit from Rs.2.89 per unit approved by the Commission to Rs.3.60 per unit due to increase in fuel and transportation cost than the level approved in the tariff order and purchase of power from external sources to make good the shortage of power due to unavailability of fuel to the full extent as approved in the tariff order. The Discoms have to submit details of the factors mentioned by them as reasons for increase in variable costs station-wise and the same need to be examined thoroughly.
7. We request the Hon'ble Commission to determine the amounts taken over or to be taken over by the GoAP from the debts of the Discoms for the year 2018-19 under UDAY and deduct the same from their true-up claims. In the subject petition, the Discoms have not given the details of taking over their debt by GoAP under UDAY during 2018-19.
8. As per Regulation No.4 of 2005, cost of power purchase is being treated as "uncontrollable." When the Discoms, obviously, at the behest or permission of the GoAP, enter into PPAs for purchase of unwarranted and high-cost power indiscriminately, leading to availability of impermissible quantum of surplus power with attendant disastrous consequences of backing down such surplus capacity to the extent they cannot sell the same and paying fixed charges for backing down, and the Hon'ble Commission giving its consents to the same, without examining and determining the need for such power to meet demand, the so-called power purchase cost, which, in this case, is virtually cost for non-purchase of power, are the consumers to be penalised for the failures of commission and omission of the GoAP, the Discoms and the Commission, all under the sweeping regulation of treating cost of power purchase as "uncontrollable"? What is the responsibility, as well as accountability, of the GoAP, the Discoms and the Commission for committing such costly blunders and causing harm to larger consumer interest on a long-term basis? In O.P.No.66 of 2019, the Discoms have admitted belatedly that Rs.5000 crore losses are adding due to high cost renewable energy purchases every year. It is imperative to review such failures of commission and omission periodically based on factual position and fix responsibility for such disastrous consequences. This is a disastrous consequence of the irresponsibility of the powers-that-be for their vested interests and undue benefit to developers at the cost of consumers of power, when such questionable PPAs are entered into and consents to the same given by the Commission. In the light of these disastrous consequences, there is every need for amending the said regulation to treat cost of power purchase as "uncontrollable" subject to reasonable conditionalities, which should ensure accountability of GoAP, the Discoms and the Commission. We request the Hon'ble Commission to initiate necessary move to amend the said regulation after holding public hearing on the same.
9. We request the Hon'ble Commission to direct the Discoms to seek additional subsidy required for purchases made in the market and from other sources far exceeding the quantum permitted by the Commission from the GoAP, since they did

not seek prior approval of the Commission for purchasing additional quantum of power, procedure to be adopted for real and transparent competitive bidding and cap on tariff. The powers-that-be should be brought round to scrupulously adhere to regulatory requirements of the Commission for purchasing power and additional power.

10. The Discoms have claimed carrying cost of Rs.465.21 crore for the year 2018-19 @ 12% interest per year and requested the Commission to take into consideration the carrying cost to be incurred by them in the future till the complete true-up sought is recovered. The Discoms have sought true up of Rs.19,503 crore from 2014-15 to 2018-19, with carrying cost. Obviously, whatever be the amount the Hon'ble Commission approves against the true-up claims of the Discoms, it is difficult to impose the entire burden on the consumers immediately. Regulatory asset may be required to collect the permitted amounts under true-up claims of the Discoms in a phased manner. In other words, carrying costs, if approved by the Commission, would impose additional burdens on the consumers for the period till the entire regulatory asset is redeemed. In effect, the consumers will be saddled with the burden of paying amounts approved under true-up, on the one hand, and carrying costs thereon, on the other. In addition to the imprudent decisions of the GoAP in permitting or directing the Discoms to enter into long-term PPAs to purchase unwarranted and high-cost power and the equally imprudent approvals given by the Commission to the same, the avoidable burden is being further compounded by the delay in submitting the true-up claims belatedly by the Discom to hoodwink the people in the pre-election period for political expediency of the then party-in-power and claiming carrying cost on the accumulated hefty sums now, leading to imposition of avoidable burdens, to a considerable extent, on the consumers of power for their no fault. Therefore, we once again request the Hon'ble Commission not to permit carrying cost on permissible sums under true-up claims of the Discoms. The consumers should not be penalised for the failures of commission of the GoAP, the Discoms and the Commission.
11. For the failures of commission and omission of the then Government, the people have punished the then party-in-power by defeating it at the hustings to the legislative Assembly. The top bureaucrats who dealt with these issues were transferred by the new Government. The previous Hon'ble Chairman of the Commission retired recently. The Hon'ble Members also will retire shortly. A thorough enquiry, preferably judicial enquiry, is necessary on all the failures of commission and omission that led to the disastrous situation in the power sector in Andhra Pradesh, to identify the authorities concerned for the same and recommend necessary action and required measures to be taken so that such deliberate failures of commission and omission are not repeated. I request the Hon'ble Commission to give a piece of advice to the GoAP to take necessary action in this direction. I also request the Hon'ble Commission to consider holding a special public hearing for two to three days on the developments that led to the present disastrous situation in the power sector.

12. I request the Hon'ble Commission to provide me an opportunity to make further submissions in person during the public hearing after receiving responses of the Discoms to my above-mentioned submissions and studying and analysing the same.

Thanking you,

Yours sincerely,

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