

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

December 22, 2020

Respected Sir,

Sub : Submissions in O.P.No.46 of 2020 relating to true-up claims of AP Transco for its transmission business for the third control period from 2014-15 to 2018-19

With reference to your public notice dated 20.11.2020, I am submitting the following points on the subject issue for the consideration of the Hon'ble Commission:

- 1. In the subject petition, AP Transco has sought a true-up of Rs.528.71 crore for its transmission business for the third control period - Rs.181.19 crore from APEPDCL and Rs.347.52 crore from APSPDCL. Even while claiming that execution of more projects for evacuation of power from solar/wind/hybrid projects due to promotional activities of GoAP to encourage non-conventional energy, as one of the reasons for claiming the said true-up amount, Transco has not given details of projects executed and expenditure incurred therefor, exceeding the ones approved by the Hon'ble Commission in its tariff order dated 9th May, 2014. AP Transco also has not given details pertaining to completion of projects in time or reasons for delay, if any, in their execution and escalation in costs, if any, due to such delays. Even while claiming that reduction in revenue due to various subsidies/exemptions extended (by GoAP) to solar/wind/hybrid projects as one of the reasons for true-up, Transco has not given details of reduction in revenue due to those subsidies/exemptions given. AP Transco has not given details pertaining to addition of capacities, exceeding the capacities approved by the Hon'ble Commission for the third control period, and the justification for the same, and whether the capacities were utilized to the optimum or underutilized during the said period. Whether AP Transco had sought and got approval of the Hon'ble Commission for executing projects for creating additional capacities and the expenditures incurred therefor periodically is not explained. AP Transco has not submitted details pertaining to reduction of transmission losses achieved vis a vis the year-wise loss trajectory approved by the Hon'ble Commission for the third control period. Transco has not given details of contracted capacity and whether it exceeded the limit determined by the Hon'ble Commission for the third control period.**
- 2. As per information furnished by AP Discoms in different petitions to the Hon'ble Commission, availability of surplus power, its backing down and fixed charges paid therefor during the third control period are as given below:**

Year	Backed down (MU)	Fixed charges paid
2015-16	3179 MU	Rs.409.40 Crores
2016-17	5748 MU	Rs.561.20 Crores

2017-18
2018-19

6912.34 MU
8301.99 MU

Rs.871.70 Crores
Rs.1072.90 Crores

Obviously, AP Transco must have added transmission capacities for evacuating substantial power that had been backed down during the third control period. In view of the said deficiencies and lack of transparency, among others, in the subject petition of AP Transco, and based on abstract figures given therein, it is difficult to understand justifiability or permissibility of the true-up claims. Therefore, we request the Hon'ble Commission to direct AP Transco to make the relevant information public and provide us the same to enable us to study and make relevant submissions further.

3. If there is reduction in revenue due to various subsidies and exemptions extended by GoAP to solar, wind and hybrid projects, the burden thereof should be borne by the Government. It is unfair to impose such burdens on consumers of the Discoms.
4. Promotional activities of the Government to encourage non-conventional energy should not degenerate into pampering private developers of those power units by allowing or forcing the Discoms to enter into long-term PPAs for purchase of unwarranted NCE at higher costs and imposing avoidable burdens on consumers. In the order dated 26.11.2020 given by the Hon'ble Commission on true-up claims of AP Discoms, it has approved specific amounts for the third control period. Whether AP Transco billed the subject true-up amounts to AP Discoms periodically and whether the Discoms included the same in their true-up claims for the third control period need to be explained and examined. In the subject petitions, AP Discoms should be respondents. I request the Hon'ble Commission to get the responses or counter filed by the Discoms in the subject petition uploaded in the web site of the Commission.
5. ARR deviations during the third control period show that gross O&M costs increased from Rs.2328.44 crore approved by the Hon'ble Commission to Rs.3107.98 crore, i.e., by Rs.779.54 crore. Barring this, all other expenditures determined by the Hon'ble Commission turned out to be inflated. Despite such reductions in actual expenditure and increase in total revenue from Rs.6422.67 crore approved by the Commission to Rs.6654.55 crore, AP Transco has claimed true up of Rs.528.71 crore. This shows need for regulating O&M expenditure in a prudent manner. In the order for transmission tariff for the third control period, having taken certain issues into consideration, the Hon'ble Commission felt that "O&M costs need to be regulated."
6. The Commission has been allowing the financial impact of periodical wage revision for the employees of AP Transco and other power utilities of the State Government, though the rates of revision tended to be higher, irrespective of permissible norms of O&M expenses. While pay revision for its employees is being decided and the impact of pay revision is being borne by GoAP, the impact of pay revision for employees of the power utilities is being passed on to the consumers of power as a

part and parcel of the tariffs to be paid by them as determined by the Commission. As such, under this regulatory regime, the impact of pay revision on tariffs needs to be regulated as a part and parcel of determining total O&M expenditure as per applicable norms. In the case of private power projects with whom the Discoms had PPAs, the O&M costs, including pay and allowances of their employees, of those projects are being determined by the Commission as per applicable norms. The private power projects are not claiming the financial impact of revision of pay and allowances to their staff separately and the Commission also is determining O&M expenditure, which is inclusive of the requirement of pay and allowances, with annual escalation. The claims for administrative costs, including pay and allowances of employees, by power utilities should be subjected to applicable norms; they cannot claim the same as they like and the Commission should apply applicable regulations and norms for determining the same in order to ensure prudence in expenditure by power utilities and protect larger consumer interest. The basis for wage revision seems to be subjective and imprudent which needs to be examined objectively and the vast difference in wage structure being implemented between permanent employees and contract/outsourcing personnel doing similar work, principles of wage revision being adopted by different pay revision committees, etc., may be examined. Seen in this background, it is difficult to agree with the observation of the Commission, in its transmission tariff order for the third control period that, “though the employee cost as part of O&M expenditure has been classified as a controllable item, these need to be considered for true-up as part of the force majeure factors,” for, this kind of strange logic implies that the decisions of those who determine and implement wage revision come under conditions of force majeure, as if they were a law unto themselves, and encourage them to continue to decide wage revision periodically as they want to, without any prudence check and accountability and unmindful of the cascading affect it will have on tariffs to be paid by the consumers. It reflects self-imposed helplessness of the Commission to regulate. If the authorities concerned display unwarranted benevolence at the cost of consumers of power in fixing wage revision, even exceeding the demands made by the employees, as had happened in the past, it reflects an unhealthy tendency of monopoly in decision-making by the authorities concerned. But for this kind of unquestioning approval for passing on the expenditure on wage revision to the consumers, without any prudence check, no organization can compete in the market and will become bankrupt, if such tendencies continue to operate periodically. The view of the Hon’ble Commission that “expenses driven by pay revision could be seen as arising from external factors and can therefore be categorized as a pass through” (page 52 of order dated 9th May, 2014) ignores need for regulating that part of total O&M expenditures. If “external factors” drive pay revision, how is it binding on internal regulatory process of the Hon’ble Commission is difficult to understand. Such an approach reduces regulation to mere mechanical regularization. Nobody can deny need for periodical pay revision. How pay revision has to be decided is not within the regulatory purview of the Hon’ble Commission. Irrespective of impact of pay revision on the organization concerned, the Hon’ble Commission is expected to work out and approve total O&M expenditure with reasonable parameters.

7. I request the Hon'ble Commission to permit me to make further submissions during public hearings, after receiving responses of AP Transco.

Thanking you,

Yours sincerely,

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