

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

April 20, 2021

Respected Sir,

Sub : Submission of objections and suggestions on the true-up claims of APSPDCL for its retail supply business for the year 2019-20 in OP No.37 of 2021

With reference to your public notice dated 8.4.2021, am submitting the following points on the subject issue for the consideration of the Hon'ble Commission:

1. In the subject petition, APSPDCL has claimed a true-up for Rs.1841.58 crore which includes the share of APCPDCL also. The Discom has claimed Rs.1286.65 crore towards variation in power purchase cost (expense true-up), Rs.357.62 crore towards revenue true-up and Rs.197.31 crore towards carrying cost with an interest rate of 12%. The abstract data and generalised reasons given by the Discom are inadequate for justifying its claims for true-up. While energy dispatch for the year 2019-20 is lesser by 1259.63 MU against 41604.68 MU approved by the Commission, sales for true-up are claimed to be 35158.60 MU against sales approved by the Hon'ble Commission to the tune of 37166.70 MU, after deducting additional sales to agriculture exceeding the sales approved by the Commission. In view of reduction in power purchase and sales vis a vis approvals given by the Commission for the year 2019-20, the Discom's claim for true-up of a hefty sum of Rs.1841.58 crore is questionable. In fact, the Hon'ble Commission had determined a probable surplus energy of 5564.87 MU for the year 2019-20 in the retail supply tariff order. The Commission did not approve the proposals of the Discoms to purchase 4041.30 MU under short-term arrangement.
2. APSPDCL has claimed that there was a shortfall in energy dispatch to the tune of 2500 MU from APPDCL due to shortage of coal, that additional energy was drawn by APEPDCL, obviously, under Discom to Discom transfer to the tune of 4854.88 MU against 616.34 MU approved by the Commission, lesser dispatch of power from gas based power projects and some variation under swapping with Discoms of other States. As a result, the Discom was constrained to purchase 2486.30 MU from short-term and other sources against 390.44 MU approved by the Commission, 422.5 MU more from AP Genco and 1536.19 MU more from IPPs, SPDCL has explained. The Discom has claimed that "to meet shortfall in energy from the committed sources and in view of operation of merit order dispatch (MOD) principles for optimization of power purchase cost, an additional quantum of almost 2100 MU has been procured from market sources & others." The Discom has not given details pertaining to the quantum of thermal and other power backed down from generating capacities of committed sources and the fixed charges, and variable charges, if applicable as per terms and conditions of agreements, paid therefor.

Going by the claims of the Discom, backing down of generating capacities of committed sources and additional purchases from the market sources and others had taken place during the said year. In order to know whether the principles of merit order dispatch were strictly followed or not, this information is very much required and needs to be examined. Merit order dispatch applies to the purchases being made by the Discoms under power purchase agreements in force only, not for purchases from the market and other sources. I request the Hon'ble Commission to direct the Discom to provide this information relating to backing down and fixed charges, etc., paid for the same, as also source-wise purchase in the market and other sources and cost per kwh, to enable us to study the same and make further submissions.

3. The veracity of the claim of APSPDCL that there was a shortfall of 2500 MU in dispatch from APPDCL due to shortage of coal needs to be examined, especially in view the claim made earlier by the Discoms that “to reduce the power cost with transportation cost, RTPP stage 1 & 3 of APGENCO is being diverted to SDSTPS (of APPDCL) under flexi coal mechanism issued by CEA.”
4. The Discom has claimed an additional sum of Rs.19.57 crore towards fixed cost under true-up, pointing out that the fixed cost paid by it increased to Rs.4130.13 crore from Rs.4110.56 crore approved by the Commission. In fact, as a result of lesser purchase of power by 1259.563 MU, the fixed cost should have come down substantially. APSPDCL has claimed that “the fixed costs are paid to various sources of generation based on their availabilities” and that additional fixed cost of Rs.136.44 crore was paid to AP Genco due to “more availability.” If more capacities for generation, exceeding the threshold levels of PLF, were available, and if additional power was purchased from such sources, including AP Genco and IPPs, fixed costs should have come down, as there was no need to pay fixed costs for power generated and supplied above the applicable threshold levels of PLF. Did the Discoms pay fixed charges for capacities of APPDCL for claimed lesser generation and supply of power due to shortage of coal? Compared to reduction in purchase of power from the approved quantum, the reduction of fixed cost is not proportionate. For example, against 6894.42 MU approved, purchase from stage I of APPDCL is 4369.88 MU only. Against a fixed cost of Rs.703.24 crore approved, the Discom paid Rs.634.74 crore to APPDCL. For a reduction of purchase of power by 2524.54 MU, reduction of fixed cost is shown as Rs.68.50 crore only. Proportionate to 2524.54 MU, reduction of fixed cost should be Rs.247.40 crore.
5. The Discom-to-Discom transfer is shown as 4854.88 MU against 616.34 MU approved by the Commission. Short-term and other purchases are shown as 2486.30 MU against 390.44 MU approved by the Commission. It shows that, instead of first meeting its requirement under committed sources, APSPDCL has transferred substantial quantum of power to APEPDCL and purchased additional power from short-term and other sources to meet its requirements. Why did it do so needs to be explained.

- 6. Against approved quantum of 10726.30 MU of NCE, APSPDCL purchased 12363.02 MU, i.e., it purchased 2095.86 MU NCE more than what was approved by the Commission. How much NCE SPDCL sold to EPDCL as a part of Discom-to-Discom transfers? Did such transfers facilitate meeting obligations under RPPO by each Discom? “There is a wide variation in D<math>\lt;/math>D energy that is settled against the additional drawal by APEPDCL in lieu of variation in DISCOM demand and generation capacity allocation ratio,” SPDCL has explained. This confirms the imbalance in allocation of generating capacities, especially of NCE and RE, to AP Discoms vis a vis their respective demand, and the attendant problems, and underlines need for correcting the same in tune with demand of each Discom. This is all the more important in view of determination of availability of substantial surplus power every year.**
- 7. We request the Hon’ble Commission to direct APSPDCL to submit information relating to income from renewable energy certificates, if any, accrued to it during 2019-20 and consider the same for adjustment for its permissible claims under true-up.**
- 8. We request the Hon’ble Commission to direct APSPDCL to submit details relating to amounts it received from GoAP under UDAY scheme and adjust such amounts, if any, received towards permissible claims of true-up made by the Discom.**
- 9. Against a variable cost of Rs.12128.70 crore approved by the Commission in the retail supply tariff order for the year 2019-20, SPDCL has shown payment of VC to the tune of Rs.13782.76 crore, i.e., a hefty sum of Rs.1654.06 crore more. The average variable cost per unit increased from the approved Rs.2.92 to Rs.3.42 i.e., by Re.0.50 per unit. The per unit variable cost varied from the lowest 17.45% to 29.73% for IPPs and the highest 35.33% for the central generating stations. SPDCL has maintained that the increase in variable cost is “mainly on account of increase in Fuel & transportation cost than the level approved in the Tariff order” and purchases from external sources. The Discom has not submitted the relevant information relating to increase in fuel cost and transportation cost source-wise and whether prudent practices were adopted for purchases and transportation of coal by the generating entities concerned. Whether the Discom had verified such information before paying the additional amounts as billed by the generating entities also is not known. This information needs to be examined to ascertain justifiability or otherwise of such additional costs in view of huge increase in variable costs.**
- 10. APSPDCL has submitted that “DISCOMs are resorting to Market purchases on distress conditions after exhausting all the available committed sources. In order to ensure reliable & uninterrupted power supply the DISCOMs, the shortfall had been met through short term purchases from market sources. The DISCOMs are making best endeavors to contain the weighted average price of the procurement within the limits of the ceiling price approved by the Commission. If the Hon’ble Commission treats the approved price for Market purchases as only the ceiling price, and limit the expenditure incurred towards cost of**

market purchases and thus denying the APDISCOMs of their legitimate expenditure incurred in the interests of maintaining uninterrupted power supply to the Consumers, the DISCOM will be plunged into financial crisis. The Hon'ble APERC is earnestly requested to approve and consider the approved ceiling price of Market purchases as weighted average price of market procurement." The very purpose of imposing upper limit on price to be paid for purchasing additional power through exchanges or under short-term arrangement is to restrain the Discoms from purchasing such power at higher rates. The upper limit of price determined by the Commission generally tends to be very much liberal, as experience has confirmed repeatedly. Whatever benefit that accrues on account of purchasing additional power at prices much lower than the upper limit determined by the Commission should not be frittered away by purchasing a part of additional power at prices higher than such upper limit, even in the name of avoiding power cuts or ensuring continuous supply of power. It is a gross misinterpretation to presume, by implication or otherwise, that the Discoms can purchase additional power at prices higher than the upper limit determined by the Commission, if the weighted average cost is contained below or on par with the upper limit of price determined by the Commission. The true-up claims of the Discom for additional power purchased at prices exceeding the upper limit fixed by the Commission should be rejected. In its order dated 26th November, 2020 relating to true-up claims of the Discoms for a period of four years, accepting our objections, the Hon'ble Commission has asserted that "the object behind fixing the ceiling price for short term and market purchases is to inculcate financial discipline in the Licensees, so that the interests of consumers at large are duly protected. In this view of the matter, the Commission is of the considered view that the procurement price shall be limited to the ceiling price." The Hon'ble Commission has, accordingly, held that "the Commission finds no justification to allow the procurement price in excess of the ceiling price." Responding to the objections raised relating to this issue in connection with ARR and tariff proposals of AP Discoms for the year 2021-22, the Hon'ble Commission has stated that "Whenever, the DISCOMs make purchases exceeding this price, they shall approach the Commission for specific approval of such purchases with justifiable reasons to the satisfaction of the Commission. If such approvals are not obtained, the prices of such purchases will be capped at Rs.3.86/unit at the time of true up. Adoption of block wise ceiling price will hinder the DISCOMs in supplying 24x7 power to all the categories of the consumers (except the agricultural consumers)" (page 80 of retail supply tariff order for the year 2021-22). I request the Hon'ble Commission to take a stand in consonance with its above-mentioned decisions on ceiling price for purchase of additional power from the market and other sources made by APSPDCL for the year 2019-20, keeping in view the directions given by the Commission in the retail supply tariff order for the same year. In the retail supply tariff order for the year 2019-20, the Hon'ble Commission directed that "If any shortfall is observed in any time block for various reasons, in all such cases the licensees may procure the shortfall energy through Power Exchanges, Intra-day mechanisms but with a price not exceeding the average power purchase cost

determined in this Order (Rs.4.04 per unit for APSPDCL) under simultaneous intimation to the Commission. All such details of purchases shall be furnished to the Commission fortnightly in the form of a statement for periodical ratification.” Further, the Hon’ble Commission directed that “The licensees shall not procure energy from Stations/Sources other than those approved in this order unless and otherwise permitted by the Commission. Further, the Licensees are also directed not to procure energy over and above the quantum indicated against each Station/Source unless and otherwise approved by the Commission or ratified by the Commission in case of unavoidable emergencies (The Licensees should be able to satisfy the Commission about the nature of the emergency). However, the licensees are at liberty to purchase energy from thermal stations listed in the merit order dispatch which have least variable cost and are placed top in the merit order, over and above the approved quantities, which helps further reduction of the power purchase cost approved in this order. While operating intraday merit order dispatch, the least cost source shall be dispatched to the full extent in order to achieve lower power purchase cost at end” (page 201). I take this opportunity to request the Hon’ble Commission to consider keeping the report of the expert committee appointed by it to make recommendations on the system to be adopted for additional purchases of power from market and other sources by the Discoms in public domain by uploading it in its website and make the same accessible to interested public.

11. APSPDCL has sought revenue true-up of Rs.357.62 crore as difference between Rs.17184 crore approved by the Commission and Rs.16826.38 crore realised by the Discom under approved tariff and non-tariff revenue. The Discom has maintained that this variation occurred “due to the factors beyond the control of the licensee.” The Discom has avoided to explain what those factors were and how were they beyond its control. In view of lesser purchase and lesser sales of power compared to the approvals given by the Commission, the Discom cannot get, and is not entitled to get, the approved tariff income. Therefore, we request the Hon’ble Commission to direct the Discom to provide information relating to the factors claimed to have been beyond the latter’s control to enable us to examine the same and make further submissions. The Discom has contended that they have “written to a letter (Lr.No.CGM/Opn/SPDCL/TPT/RAC/F.Reg.4/ D.No.12/16 dated 15-01-2017) to the Hon’ble Commission seeking amendment to the Regulation 4 of 2005 (seeking allowing variation of agricultural sales, allowing deviation in technical losses, allowing revenue true-up etc.)” In its order dated 26.11.2020 relating to true-up claims of AP Discoms for a period of four years, the Hon’ble Commission observed: “As rightly pointed out by the objectors, there is no regulatory provision for annual true up of Revenue. The DISCOMs however, relied upon a letter dated 15.01.2017 for claiming inter alia revenue true up. In the

Commission's view unless the request of the DISCOMs is accepted and the relevant regulation amended, their letter has no sanctity in law. For the above mentioned reasons, the Commission is not inclined to accept the revenue true up claims of the DISCOMs" (Page 21). We request the Hon'ble Commission to apply the same yardstick for claims of APSPDCL for revenue true-up and reject the same.

12. APSPDCL has requested the Hon'ble Commission to take into consideration the carrying cost to be incurred by the licensee in the future till the complete true-up mentioned above is recovered. The Discom has contended that "The Petitioner has put his best efforts in trying to file the true-up petition along with the ARR filings for FY 2021-22. However, due to delay in completion of audit the true-up petition could not be completed and the delay may please be condoned." For the financial year 2019-20 ending March, 2020, completion of audit does not require a period of about nine months. The Discom has not revealed when audit was completed. Experience has confirmed that, whatever be the reasons, whether political or others, the Discoms have been habituated to delayed submission of their true-up claims and seeking carrying cost. For the failure of the Discom, the consumers should not be penalised in the form of imposing carrying cost for the period of delay in filing true-up claims. In its order dated 26.11.2020 relating to true-up claims of AP Discoms for a period of four years, the Hon'ble Commission observed that "the reasons furnished for the delay of true up filings by the DISCOMs are not convincing. Consequently, the Commission has excluded the period of delay from the computation of carrying costs. Accordingly the Commission has allowed the carrying costs from the date of filings to the date of finalization of this Order on total true up determined, at weighted average interest of 9.7 percent furnished by the DISCOMs on its working capital loans" (page 66). We request the Hon'ble Commission to apply similar yardstick in the subject petition also.

13. I request the Hon'ble Commission to provide me an opportunity to make further submissions after receiving responses of the Discom and in person during public hearings on the subject petition.

Thanking you,

Yours sincerely,

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