

For perusal  
Secretary  
Member/T  
Chairman  
19/1/17  
19/1

**Statement of suggestions and objections on the ARR and tariff proposals of TS Transco for the period of 2017-18 to 2018-19 in O.P.No.24 of 2016**

1. Name & full address of objector :

DDIT  
P. parvesh  
19/1/17

M. Venugopala Rao  
Senior Journalist &  
Convener, Centre for Power Studies  
H.No.7-1-408 to 413, F 203  
Sri Sai Darsan Residency  
Balkampet Road, Ameerpet  
Hyderabad - 500 016

2. Brief details of objections and suggestions :

**Objections :** For not filing true up claims for the 2nd control period, projecting inflated contracted capacity, higher rate of interest on loans, inflated ARR and higher transmission charges, unwarranted capital investment plan in the light of huge surplus of energy projected for 2017-18, lack of periodical review of performance and required revision of tariffs during the control period, proposal to refund surplus revenue for the last two years during the next two financial years, etc.

**Suggestions :** To adopt order of APERC on true up claims of AP Transco for the second control period and direct TS Transco to refund surplus revenue accrued to TS Discoms; to direct Discoms and Transco to submit long-term load forecast, resources plan and procurement plan and hold public hearings on the same; permitting addition of generation capacity for power purchase, investment plan and expansion of transmission capacity, etc., in accordance with approved long-term load forecast; monitoring performance of TS Transco periodically for taking necessary steps for orderly development of power sector and reasonable tariffs to consumers; reduction of interest rates proposed by Transco and exploring possibilities for swapping of loans to get benefit of lower interest rates; reducing proposed capital investment, ARR and transmission charges, etc.

- 3. Whether copy of objections enclosed : Yes
- 4. Whether the objector wants to be heard in person: Yes

M. Venugopala Rao  
M. Venugopala Rao

MEMBER (T) PESHU  
No : 50  
DATE : 19/1/17

CHAIRMAN PESHU  
No : 64  
DATE : 19/1/17

TSERC, HYDERABAD  
INWARD  
18 JAN 2017  
No. 71  
Signature

The Secretary  
Telangana State Electricity Regulatory Commission  
11-4-660, 5<sup>th</sup> floor  
Singareni Bhavan, Red Hills  
Hyderabad - 500 004

January 17, 2017

Respected Sir,

**Sub : Submission of objections and suggestions on the proposals of Transmission Corporation of Telangana Limited for aggregate revenue requirement and tariff under multi-year tariff for the last two years of the third control period - 2017-18 and 2018-19 – in O.P.No.24 of 2016**

With reference to the public notice dated 27.12.2016, inviting objections and suggestions on the subject proposals, I am submitting the following points for the consideration of the Hon'ble Commission:

1. Regarding the issue of non-submission of true up claims by TS Transco for the second control period raised by us earlier, the Hon'ble Commission had expressed the view that "the TS Transco has mentioned that the assets and liabilities of erstwhile AP Transco have not yet been bifurcated between AP Transco and TS Transco. TS Transco has hence stated that it will file the ARR and tariff for the balance of the third control period during the year 2016-17 along with True up for the second control period vide its letter No.CE/Plg. Cooml&Co-ordn/DE/RAC/F.ARR (FY 16-17)/D.No.68/15 dated 24<sup>th</sup> November, 2015" (page 66 of tariff order for 2016-17). However, TS Transco has not filed true up claims for the second control period along with the ARR and tariff proposals for the balance period of the third control period. TS Transco has maintained in the subject proposals that the opening balance of assets and liabilities pertaining to it as on the 2nd June, 2014 are yet to be finalized/notified, following its formation. It has further explained that pending segregation of assets and liabilities of composite AP Transco between the two entities, i.e., AP Transco and TS Transco, the latter has compiled its provisional accounts for FY 2014-15 and for 2015-16 based on the provisional opening balance of assets and liabilities as per the draft demerger plan communicated by AP Transco. The failure of TS Transco in submitting true up claims for the second control period and the Hon'ble Commission allowing it to continue to do so are questionable for the following reasons, among others:
  - a) TS Transco should have filed true up claims for the second control period based on the same draft demerger plan.
  - b) Since the second control period pertains to pre-bifurcation of the undivided AP and undivided AP Transco and APERC had already given its order on true up claims of AP Transco for the second control period, after holding public hearing, bifurcation of assets and liabilities between TS Transco and AP Transco would

not make any material change for true up claims for the second control period, i.e., period of pre-bifurcation of AP and AP Transco.

- c) The Hon'ble Commission had already adopted the regulations and orders of APERC in the erstwhile undivided AP.
  - d) As submitted in our submissions dated 14.3.2016 and 11.4.2016 on the ARR proposals of the TS Discoms for the year 2016-17, the TS Discoms are entitled to get a refund of Rs.317.13 crore from TS Transco from the revenue surplus accrued during the second control period, as per APERC's order in O.P.No.13 of 2015 dated 7.11.2015, relating to true up claims of AP Transco for the second control period, i.e., from 2009-10 to 2013-14.
  - e) There is no justification in postponing submission of true up claims for the second control period by TS Transco under any pretext even after completion of the first three years of the third control period and continuing to retain the huge sum of Rs.317.13 crore for itself unduly at the cost of TS Discoms and their consumers of power.
  - f) It is open to the Hon'ble Commission to adopt the order given by APERC on the true up claims of AP Transco for the second control period and direct TS Transco to refund Rs.317.13 crore to TS Discoms.
  - g) It is equally open to TS Transco to seek review of the said order of APERC, if it wants to, based on final bifurcation of assets and liabilities between AP Transco and itself as and when it takes place, by filing appropriate petition before the Hon'ble Commission.
  - h) Therefore, I request the Hon'ble Commission to adopt the said order of APERC on true up claims of AP Transco for the second control period and direct TS Transco to refund Rs.317.13 crore to TS Discoms forthwith, subject to review if and when TS Transco prefers it in future. Or else, the Commission should direct TS Transco to submit forthwith its true up claims for the second control period based on draft demerger plan and hold public hearing thereon and issue its order without further delay.
2. It is gratifying to note that transmission loss (excluding PGCIL loss) has been reduced from 3.59% in 2013-14 to 3.13% in 2015-16. However, reduction of transmission loss from 2014-15 (3.18%) to 2015-16 (3.13%) is 0.05% only, after incurring net expenditure of Rs.645.27 crore during 2015-16. Moreover, it is to be noted that as per the targets of transmission loss determined by APERC in its tariff order for the third control period are 4.01% for 2016-17, 3.98% for 2017-18 and 3.95% for 2018-19. TS Transco has claimed that "the transmission network availability has improved from 99.902% in FY 2014-15 to 99.867% in FY 2015-16." If it is not a typographic error, reduction of transmission network availability cannot be claimed as improvement. Nevertheless, continuing to maintain

transmission network availability at such levels over many years is a proof of exemplary performance and commendable.

3. TS Transco has shown a net expenditure of Rs.1124.09 crore against Rs.1176.65 crore approved in the tariff order for the period from 2.6.2014 to the 31<sup>st</sup> March, 2016. During the same period total revenue of TS Transco is shown as Rs.2255.65 crore against Rs.2074.03 crore approved in the tariff order. During the said period, while net expenditure is less by Rs.52.56 crore and non-tariff income less by Rs.43.51 crore (Rs.87.29 crore against Rs.130.80 crore approved in tariff order), revenue is more by Rs.225.13 crore. On the whole, TS Transco has shown a surplus of Rs.604.43 crore, after claiming return on capital employed (ROCE) of Rs.527.13 crore, during the said period. It has submitted that the surplus of Rs.605 crore is being passed on to the consumers as a negative element during 2017-18 (Rs.302.21 crore) and 2018-19 (Rs.302.22 crore). Such a surplus has to be trued down as per applicable regulations; the entire surplus can be trued down during 2017-18 itself. The surplus is likely to vary, if various relevant factors are examined and considered by the Commission.
4. TS Transco has explained that during the said period, the actual addition to the gross fixed assets is lower by Rs.1045 crore which is mainly due to delay in completion of projects. It has further explained that ROCE has been calculated by adding interest on term loans at actuals plus 14% return on equity on 25% of regulated rate base. Since Transco has not given actual rates of interest on term loans, the same needs to be examined to ascertain whether such rates are prudent or not going by the rates of interest prevailing during the said period and the fact that the interest rate of 12% permitted by APERC in its tariff order for the third control period itself is on the higher side.
5. Despite the fact that actual addition to the gross fixed assets is lower by Rs.1045 crore, net operation and maintenance expenses have increased by Rs.19.17 crore mainly due to wage revision with effect from 1.4.2014, as explained by Transco. While pending final allocation of employees between AP Transco and TS Transco, with no actuarial valuation towards employee terminal benefits taken up, pension and gratuity contribution has been provided provisionally, excluding provision towards leave encashment, it has explained. In other words, the O&M expenditure claimed by Transco during the said period lacks finality and is subject to adjustment. The permissibility of such a provision needs to be examined and determined by the Hon'ble Commission.
6. The contention of TS Transco that the main reason for increase in actual revenue accrued from transmission charges during the said period by Rs.181.62 crore is increase of revenue from open access customers is untenable. Since the ERC had determined transmission charges in the tariff order based on all approved expenditures, capitalization of assets and growth in generation capacity, demand and contracted capacity, including that of open access customers, in the light of admitted delay in completion of projects during the said period, lesser net

expenditure and disproportionate increase in O&M expenditure, etc., it can be reasonably asserted that the transmission charges have turned out to be inflated, with no periodical review of actual performance and revision of the transmission charges by the Commission. In other words, the surplus revenue accrued to TS Transco during the said period is not on account of efficiency improvement, but due to collection of inflated transmission charges. Moreover, delay in completion of projects, as admitted by Transco, would result in under-creation of projected transmission capacity and under-utilisation of capacity. Since contracted capacity of open access consumers was also taken into consideration by APERC for the third control period, it can be safely presumed that a part of the contracted capacity not utilized by the Discoms on account of delay in completion of projects or substantial backing down or for other reasons might have been utilized by others, including unanticipated open access consumers. Transco has to make it clear whether it has charged and collected transmission charges from the Discoms for non-utilization of contracted capacity, on the one hand, and from others for utilization of such capacity not utilized by the Discoms. In this connection, it is to be noted that APERC, in its tariff order for the third control period, pointed out that "if the cumulative actual cost is less than 90 per cent of cumulative approved cost at the beginning of the financial year starting from 2015-16, the Commission may require the APTRANSCO to explain the reasons for cost variations. If necessary, the Commission may also require APTRANSCO to file the Transmission Tariff for the rest of the Control Period." Further, the Commission directed that "APTRANSCO shall file the actual costs and revenues on the last week of quarter every year for the previous quarter in the format prescribed for this purpose by the Commission. AP Transco may also state its own observations on cost, revenues and capacities along with the quarterly report" (page 75 of tariff order for the third control period). One of the directives given by APERC, in its tariff order for the third control period, is that "the Licensee shall take all possible measures to ensure that the projects/Schemes taken up are completed as per schedule. In this regard, the Commission clarifies that it will not allow any interest during construction for delays exceeding one month and three months in respect of completion of projects/schemes with the completion schedules of up to one year and more than one year, respectively, unless the Commission's approval for extension in the completion schedule is obtained in advance" (page 83 of tariff order). Whether any such exercise has been undertaken is not known. There is every need to monitor the way orders or contracts are being given for execution of works and projects and purchases of materials by TS Transco to ensure that real and transparent competitive bidding is scrupulously followed, expenditure incurred is prudent and time schedules are adhered to. Since TS Transco has admitted that there is delay in completion of projects, the particulars of such delays project/scheme-wise, and cost escalation, including interest during construction, during periods of such delays should be furnished and examined in order to determine permissible expenditure during 2014-15 and 2015-16. I request the Hon'ble Commission to direct Transco to provide the same information to us.

7. Cost of debt is projected by TS Transco at 12% for the years 2016-17, 2017-18 and 2018-19. This is inflated and needs to be pruned, especially in the light of demonetization of currency notes of higher denomination by the GoI and the resultant flushing of banks and financial institutions with enormous funds and the trend of their reducing interest rates on different kinds of loans. Transco also may explore the possibility of swapping loans to get benefit of relatively lower interest rates.
8. Transco has projected transmission contracted capacity as 14376 MW for 2017-18 and 15021 MW for 2018-19. It has projected anticipated additions of generation capacity of 3974.488 MW for 2016-17, 4583.6 MW for 2017-18 and 2011.1 MW for 2018-19. Based on these projections, Transco has proposed total capital investment of Rs.2939.26 crore for 2016-17, Rs.5694.91 crore for 2017-18 and Rs.2957.03 crore for 2018-19. The anticipated addition of generation capacity of 4583.6 MW for 2017-18 is overambitious vis a vis the projected requirement of energy of 54756 mu and a surplus of 11,320 mu for both the TS Discoms for the same year. The surplus works out to 20.67% against the projected requirement. Moreover, availability of 807.31 MW as the share of TS Discoms (53.89%) from the four new IPPs (GVK extension, GMR Vemagiri, Konaseema and Gauthami with a total installed capacity of 1499 MW) is not considered by them in their ARR projections for the year 2017-18 on the ground that natural gas will continue to be unavailable to these projects. As and when supply of natural gas is recommenced to these projects, TS Discoms will get additional 5657.62 mu as their share from these projects with a PLF of 80%. In other words, in such an eventuality, the available surplus will be 16,977 mu or 31% of projected requirement for the year 2017-18. What will the Discoms do with such a huge surplus and how much of it would be backed down is not explained by the Discoms in their ARR proposals. When seen in this background, the requirement of the anticipated addition of generation capacity, and projected addition of transmission capacity with a huge investment of Rs.5694.91 crore, for the year 2017-18 are questionable, for the following reasons, among others:
- a) The proposed additions of generation capacity and transmission capacity would lead to disastrous consequences of imposing heavy and avoidable burdens on consumers of power with a considerable part of capacities created remaining stranded.
  - b) Even addition of generation capacity of projects like Bhadradri and Yadadri and a part of non-conventional energy units, as projected in the submissions of TS Transco, is doubtful for various reasons.
  - c) While TS Transco has shown addition of anticipated generation capacity of 800 MW from Kothagudem thermal station stage-7 and 270 MW from Bhadradri TPS Manuguru during 2017-18, the TS Discoms have not shown availability of any power from these two projects in their ARR submissions for 2017-18.


- d) While Transco has shown addition of anticipated generation capacity of 2513 MW of non-conventional energy during 2017-18 alone (in addition to 1588.70 MW during 2016-17), the Discoms have projected availability of total installed capacities of NCE units during 2017-18 at 2984.3 MW.
  - e) Bhadradi thermal power plant's construction has been on hold for several months following the order of the National Green Tribunal, which pointed out serious environmental issues. The NGT directed to prosecute officials of Genco for undertaking the project work in an unlawful manner. Ministry of Environment & Forests has not given environmental clearance to the project on the ground it is using subcritical technology.
  - f) On Yadadri thermal power plant, Genco has been directed to conduct an EIA and the public hearing again.
  - g) The thermal power project of NTPC at Ramagundam proposed to be taken up under A.P. Reorganisation Act exclusively for Telangana is not shown under anticipated generation capacity additions during the next two financial years by TS Transco. This project, too, has its environmental and other problems.
  - h) Creation of transmission capacity to evacuate power from projects whose timely completion is doubtful and questionable would naturally lead to stranded assets and unwarranted financial burdens. Needless to say, addition of transmission capacity for projects concerned should be undertaken and completed in time in such a way that it can be put to use from performance acceptance tests of those projects. Preponing or postponing will have its adverse consequences.
  - i) Projected availability of surplus energy of 11,320 mu (16,977 mu as explained above) for the year 2017-18 shows that the earlier load forecast presented for a period of five years ending 2018-19 by TS Discoms to the Hon'ble Commission and the way they have been proceeding with entering into PPAs and the way Commission has been giving approvals have gone awry. These failures of commission and omission underline the imperative need for a realistic appraisal of load forecast and resources and procurement plans on a long-term basis.
9. In view of the above explained situation, I once again request the Hon'ble Commission to understand the seriousness of the situation and need for long-term load forecast and thoroughly examine with due diligence and determine realistically the capacity addition required both in generation and transmission based on a realistic long-term load forecast, resources plan and procurement plan that should be submitted by the Discoms, and give its order after holding public hearings. Based on that, the Hon'ble Commission should direct both the Discoms and TS Transco to confine their projections of, and plans and investments for, requirement of energy, purchases and capacity additions to permissible extents and give its approvals accordingly to ensure orderly development of power sector and reasonable tariffs to consumers. Based on that and as per applicable regulations and parameters, capital

investment, revenue requirement and transmission charges proposed by TS Transco for the next two financial years should be reduced substantially and determined realistically.

10. I request the Hon'ble Commission to direct TS Transco to send its responses to our objections and suggestions, along with relevant information sought above, in time to enable us to study the same and make further submissions during the public hearing proposed to be held on 9.2.2017 on the subject proposals.

Thanking you,

Yours sincerely,



**M. Venugopala Rao**  
**Senior Journalist &**

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