To
The Secretary
Telangana Electricity Regulatory Commission
Sy. No.145-P, Vidyut Niyantran Bhavan
Kalyan Nagar, GTS Colony, Hyderabad **January 30, 2025**

Respected sir,

Sub : Submissions on annual performance review of distribution business for 2023-24, end of control period review for the 4th control period (2019-2023-24) and determination of ARR and wheeling tariffs for 2025-26 of TGSPDCL and TGNPDCL in OP Nos. 1 of 2025, 3 of 2025 and 31 of 2024, and OP Nos. 2 of 2025, 3 of 2025 and 31 of 2024, respectively

With reference to the public notices dated 10.1.2025, am submitting the following points on the subject issues for the consideration of the Hon'ble Commission:

1. **For the financial year 2023-24, TGSPDCL has shown a net revenue surplus of Rs.243.07 crore and a net revenue gap of Rs.442.81 crore for the 4th control period (2019-20 to 2023-24). Similarly, TGNPDCL has shown a net revenue surplus of Rs.935.28 crore for FY 2023-24 and of Rs.512.46 crore for the 4th control period. While SPDCL is seeking true-up for the net revenue gap, NPDCL is seeking true-down for net revenue surplus. For the FY 2023-24, SPDCL has shown a loss of Rs.4909.53 crore and NPDCL has shown a loss of Rs.1441.18 crore. They have not shown cumulative loss/profit position at the end of the 4th control period. They have also not explained the reasons for incurring such huge losses and how they propose to bridge or overcome the losses.**

2. **As has been the standard practice, the Hon'ble Commission has been determining revenue requirement of the DISCOMs for their distribution business for the control period and wheeling tariffs to recover the revenue requirement. Moreover, the Hon'ble Commission has been determining additional revenue requirement, if any, for their distribution business and allowing permissible true-up. When such is the position, where is the scope for the DISCOMs incurring huge losses for their distribution business? While determining ARR and retail supply tariffs for the DISCOMs, the Hon'ble Commission has been factoring wheeling charges for distribution business and transmission charges to be paid to TGTRANSCO and PGCIL into account. The Hon'ble Commission has been determining, after taking into account other income and subsidy the state government agrees to provide, tariffs to bridge the projected revenue gap of the DISCOMs for their retail supply business. In addition, the DISCOMs are being allowed to collect not more than Re.0.30 per unit under fuel surcharge adjustment, without prior permission of the Commission. Furthermore, true-up, with true-down being exceptional, of the claims of the DISCOMs for variations in their revenue requirements to the extent permissible is being allowed by the Commission. In other words, DISCOMs are getting ARR for their distribution business, in the form of wheeling charges and as a part and parcel of retail supply tariffs, other income, subsidy of the government,**

true-up claims, etc., for retail supply business. Therefore, the huge losses projected by the DISCOMs for their distribution business are inconceivable.

3. **Over the years we have been pointing out that the projections of TGDISCOMs and TGTRANSCO and determinations made by the Commission for their distribution business and transmission business, respectively, for the control period concerned tend to be inflated, thereby allowing them to collect wheeling charges and transmission charges higher than what are due to them. Experience for the earlier periods, both in the undivided Andhra Pradesh, and in Telangana after bifurcation of the state, confirms this. The huge revenue surplus shown by NPDCL confirms continuation of this unwarranted trend. This surplus is not the result of any efficiency gains, but of the failure of the DISCOM to take up and complete the proposed works, which were approved, and capitalize the same. This trend once again underlines the need for making realistic projections and determination of various factors associated with revenue requirement of the licensees, while determining their MYT and annual tariffs. It further underlines the need for reviewing progress of works and the capital investments approved and made therefor and revise the wheeling charges annually to the extent required.**

4. **NPDCL has stated that, against a capital investment of Rs.2104 crore approved by the Commission for the FY 2023-24, it has invested only Rs.723 crore, i.e., less by Rs.1381 crore or 65.63%. However, it has not given any explanation as to why it could not make capital investment as approved by the Commission, which are the works for which it could not make capital investment and the impact of its failure in terms of maintaining and strengthening distribution network. As a result, operation and maintenance expenses, return on capital employed, depreciation, etc., have come down substantially vis a vis what were approved by the Commission, leading to a net regulatory gap of Rs.935.28 crore to be trued down. Despite reduction of capital investment by 65.63%, that administrative and general expenses are increased by Rs.36.33 crore or 25.46% indicates elements of profligacy, rather than efficiency improvement. That the DISCOM need not pay the approved income tax of Rs.46.34 crore in the light of incurring a huge loss of Rs.1441.18 crore again indicates its poor performance. Furthermore, that employee cost is lesser by Rs.368.49 crore (13.36%) vis a vis Rs.2757.50 crore approved by the Commission shows how projection of employee cost was inflated. It is also not clear whether there is any intrinsic link between lesser capital investment and lesser employee cost.**

5. **TGERC MYT Regulations, 2023, provide for Return on Equity (RoE) for distribution licensee :** "29.2 Return on Equity shall be computed at the following base rates: (e) Distribution licensee: Base Return on Equity of 14% and additional Return on Equity up to 2% linked to Licensee's performance towards meeting standards of performance: Provided that the Commission at the time of true-up shall allow the additional Return on Equity up to 2% based on Licensee meeting the summary of overall performance standards as specified in Clause 1.11 of Schedule III of TGERC (Licensees' Standards of Performance) Regulations, 2016." **NPDCL has not explained whether it**

has met the said standards of performance and achieved targets like reduction of distribution losses for the FY 2023-24. That the DISCOM has shown return on equity @ 14% indicates that it could not meet standards of performance to claim additional return on equity @ 2%. In fact, there is no critical and objective review of its performance in distribution business, except giving statistics.

6. **For the FY 2023-24, regulated rate base has come down from Rs.6254.26 crore approved by the Commission to Rs.2851.55 crore, i.e., by Rs.3402.70 crore or 54.40%. At the same time, consumer contributions increased from Rs.1572.16 crore approved by the Commission to Rs.2216.35 crore, i.e., by Rs.644.19 crore or 40.97%. However, requirement for working capital has come down from Rs.238.97 crore approved by the Commission to Rs.218.79 crore, i.e., by Rs.20.18 crore or 8.44% only. Compared to substantial reduction in capital investment and regulated rate base, on the one hand, and substantial increase in consumer contributions, on the other, the reduction in need for working capital seems meagre and disproportionate. The DISCOM has to explain as to how collection of consumer contributions is increased by 40.97% compared to what were approved by the Commission, when capital investment has come down by 65.63%. "Consumer/User Contributions" means any contributions made by those using or intending to use the Distribution network of a licensee for supply or wheeling of electricity. Any grant received by the licensees would also be treated as Consumer/User Contribution, the DISCOM has explained. It has shown an income of Rs.2.47 crore from open access (captive). It has not shown receipt of any grants. NPDCL has to give details of actual distribution capacity available during the FY 2023-24 vis a vis the capacity to be created as per approvals given by the Commission for capital investment and works and actual utilisation of the capacity for wheeling.**

7. **NPDCL has claimed that it has paid a sum of Rs.21.01 crore towards compensation/ex-gratia to victims of electrical accidents against Rs.20 crore approved by the Commission for the FY 2023-24 and has shown it under A&G expenses. It has claimed that it has carried out capital works worth Rs.8.07 crore towards safety measures. It is fair that the amounts paid towards compensation/ex-gratia to victims of electrical accidents should be borne by the DISCOMs, whether they are caused due to fault of the department or otherwise. The DISCOM has claimed that majority of faults are on consumer side. Allowing such payment of ex-gratia paid by the DISCOMs as pass-through to be collected from all their consumers by including the same in their ARR or under true-up is misplaced, as it would be tantamount to shifting the said liability of the DISCOM concerned to all its consumers. Such a stance, in practice, absolves the DISCOMs of their responsibility and liability. The successive Commissions continue to disagree with such a view expressed earlier during public hearings. Going by the hefty ARR, FSA, true-up and other charges being allowed by the Commission to be collected by the DISCOMs from their consumers, the ex-gratia/compensation being paid in cases of electrical accidents may be insignificant. Nevertheless, as a matter of principle, it should not be difficult to the DISCOMs to bear the amount for paying ex-gratia/compensation in cases of electrical accidents. The consumers of the**

DISCOMs have been paying the expenditure being allowed by the Commission for taking safety measures to prevent electrical accidents. Despite that, compensation/ex-gratia paid and to be paid in cases of electrical accidents is being imposed on the consumers at large, without any justification. In fact, the DISCOMs used to bear such compensation from their internal resources and rightly so. For example, in their replies, APDISCOMs stated that "the ex-gratia paid towards victims due to electrocution is being met from the internal resources of the DISCOM which is not recovered from ARR" (page 110 of RSTO for 2017-18 issued by APERC). Subsequently, APERC had brought about an amendment to the regulation concerned, allowing the DISCOMs to collect the ex-gratia or compensation paid to victims of electrical accidents as a part and parcel of tariff and true-up, without any justification. The same position continues in Telangana also. The request of the DISCOM to consider compensation/ex-gratia amount paid towards electrical accidents as a safety measure in the true-up calculations defies logic. Expenditure incurred for safety measures to prevent electrical accidents is one thing and payment of ex-gratia/compensation towards electrical accidents cannot be treated as a safety measure is quite another, because, the need for such a payment arises as a result of deficiency or failure of safety measures to prevent electrical accidents. During the 4th control period, the DISCOM has paid Rs.107.58 crore towards compensation/ex-gratia towards electrical accidents. The amounts paid year-wise indicates that there has been no perceptible improvement in reduction of electrical accidents. Moreover, the number of electrical accidents in which compensation/ex-gratia is paid or not paid also needs to be examined to understand the real magnitude of such accidents. We request the Hon'ble Commission to re-examine this issue and take an appropriate decision so as not to impose such compensation/ex-gratia on consumers who are not responsible for electrical accidents.

8. **The DISCOM has based its claims for true-up/true-down on expenditures it claimed to have incurred as per its accounts. It has not given details of its expenditure item-wise and variations, if any, compared to the amounts determined by the Commission in the MYT. Nor has it submitted its annual accounts audited for the FY 2023-24. It is not entitled to pass through of the entire expenditure it has claimed to have incurred as per its accounts, if that expenditure exceeds the amounts determined item-wise in the MYT order by the Hon'ble Commission. Here, expenditure item-wise needs to be subjected to prudence check and permissible expenditure only needs to be allowed, examining physical completion certificates and financial completion certificates.**

9. **For the 4th control period, NPDCL has sought a true-down of Rs.512.46 crore, after adjusting claims of true up for the first three years, i.e., from 2019-20 to 2021-22 of Rs.161.30 crore, Rs.485.75 crore and Rs.605.68 crore, respectively, and true down for the last two years of Rs.829.91 crore and Rs.935.28 crore, respectively. Since the Hon'ble Commission has already issued its orders for true-up/true-down for the first four years, Commission has to issue its order, after subjecting the claims of the DISCOM for the last year of the control period 2023-24 to prudence check.**

10. **For the FY 2023-24, TGSPDCL has shown a revenue variation of Rs.263.27 crore, with actual revenue of Rs.4510.59 crore against Rs.4773.86 crore approved by the Commission. Its new investment is less by Rs.612.44 crore, with actual investment of Rs.1686.89 crore against Rs.2299.33 crore approved. Similarly, investment capitalized is less by Rs.710.38 crore, with an investment capitalized of Rs.1763.52 crore against Rs.2473.90 crore approved by the Commission. Regulated rate base also is less by Rs.319.13 crore, with actual of Rs.5036.58 crore against R.5355.75 crore approved. Decreases are shown in O&M expenses by Rs.69.04 crore and in depreciation by Rs.316.40 crore. Towards compensation/ex-gratia for electrical accidents, SPDCL has paid a sum of Rs.84.94 crore during the 4th control period, including Rs.20.20 crore paid during the FY 2023-24 itself. With a huge loss shown by SPDCL, need for paying income tax of Rs.63.47 crore approved by the Commission has not arisen for the FY 2023-24. Return on equity also is calculated @ 14%, thereby indicating that the DISCOM could not meet standards of performance to claim additional return on equity @ 2%.**

11. **SPDCL has shown the rate of cost of debt as 10.05% against 9.85% approved by the Commission. It may be noted that, for the same FY, in the case of NPDCL, rate of cost of debt has come down to 9.33% from 9.85% approved by the Commission. This variation between rates of cost of debt between the two DISCOMs shows need and scope for obtaining loans at lower rates of interest possible and exploring possibilities for swapping old loans with higher rates of interest with new loans with relatively lower rates of interest.**

12. **SPDCL has shown that revenue from open access has come down by Rs.30.76 crore, i.e., from Rs.49.84 crore approved by the Commission to Rs.19.08 crore. Similarly, its non-tariff income also has come down by Rs.129.12 crore, i.e., from Rs.585.52 crore approved by the Commission to Rs.456.40 crore. SPDCL has not shown any contributions from consumers separately.**

13. **For the 4th control period, SPDCL has claimed a net true-up of Rs.442.81 crore, with revenue gaps of Rs.418.14 crore, Rs.542.68 crore and Rs.31.46 crore for the first three years, respectively, and revenue surplus of Rs.369.4 crore for 2022-23 and Rs.243.07 crore for 2023-24. After considering true-down and true-up claims of both the DISOMs for the 4th control period, the net true-down works out to Rs.69.65 crore. Compared to substantial reduction in capital invested and capitalized, depreciation, return on equity, O & M expenditure, no payment of income tax, etc., the overall amount for true down is a pittance.**

14. **The comments made on the performance of NPDCL above relating to all these factors are applicable to the performance of SPDCL also and hence they are not being repeated here.**

15. **For the FY 2025-26, NPDCL has shown a net ARR of Rs.3928 crore for distribution business, after transferring 10% to retail supply business. It has projected a capital**

expenditure of Rs.1413 crore, depreciation of Rs.414 crore, consumer contributions of Rs.182 crore, new loans (excluding consumer contributions) of Rs.1096 crore and operation and maintenance expenditure of Rs.3003 crore, among others. SPDCL has shown ARR of 5414 crore (after deducting 10% to be transferred to retail supply business of Rs.601 crore), capital expenditure of Rs.2467 crore, depreciation of Rs.831 crore, consumer contributions of Rs.798 crore, new loans of Rs.139 crore, O&M expenditure of Rs.3823 crore, new loans of Rs.1329 crore, among others. We request the Hon'ble Commission to examine the following points, among others:

a) **Both the DISCOMs have shown return on equity @ 16%, out of which they will be entitled to get 2% RoE, if only they achieve standards of performance. In view of continuous failures of the DISCOMs to achieve standards of performance, we request the Commission to consider rate of interest as per applicable regulations. If the DISCOMs achieve standards of performance, they can claim 2% RoE additionally under true-up later.**

b) **While SPDCL has proposed a rate of interest of 10% on loans, NPDCL has proposed a rate of interest of 10.75%. There is no justification to project higher rate of interest. The variation of rates of interest between the two DISCOMs also shows scope for getting loans at relatively lower rates of interest. We request the Hon'ble Commission to examine the rates of interest the DISCOMs have to pay to existing loans and new loans and determine rates of interest in a realistic manner, giving them a piece of advice to try to get loans at lowest rates possible and get new loans at relatively lower rates of interest for swapping their old loans with higher rates of interest to the extent possible. Similar should be the approach of the DISCOMs for getting loans for working capital.**

c) **The DISCOMs have claimed that they have projected various factors for the FY 2025-26 as per normative parameters permissible under the applicable regulations. The normative parameters, being changed by the Commissions periodically by amending the applicable regulations, tend to be very much liberal. When projections of capital expenditure, requirement of loans for the same and working capital, annual revenue requirement, and based on all such applicable factors, the wheeling charges worked out turn out to be unrealistic and inflated, and if they are approved by the Commission, it would lead to imposition of avoidable burdens on the consumers, as experience has been proving. Therefore, a near realistic assessment and determinations of all such factors is imperative.**

d) **Tendering process being adopted by the licensees for purchase of materials and execution of works should be subjected to prudence check by the Commission and the details be made public to ensure transparency and accountability.**

e) **How much additional capacity for distribution needs to be added during the FY 2025-26 and the expenditure therefor need to be determined in a realistic manner, taking into account various factors like availability of existing**

distribution capacity, to what extent it is being utilised, new generation capacity required and likely to be added during the FY to meet growing demand, etc. If based on the decisions taken by the government directing the DISCOMs to enter into long-term power purchase agreements, unrelated to realistic requirement of generation capacity to be added, and distribution capacity to be added in accordance with the same, it would lead to stranding of unwarranted additional distribution capacity till it is required.

f) Power to be procured under long-term PPAs should ensure a balance between fluctuating demand, daily, monthly and seasonal, and power mix to the extent technically practicable so as to see that availability of surplus power is the lowest possible. If such a balance is not maintained, availability of unwarranted surplus, its backing down and payment of fixed charges for the capacities backed down would impose avoidable burdens on the consumers. If transmission and distribution capacities are added as per the quantum of power that can be generated at threshold levels of the capacities of the plants concerned, both unwarranted generation capacity and distribution capacity would become stranded. If PPAs are entered into and regulatory consents given to the same for purchasing unwarranted renewable power, it would further intensify the adverse situation, with the DISCOMs being compelled to purchase unwarranted RE, which is treated as must-run, and in order to purchase the same, to back down thermal power and pay fixed charges therefor. Since RE, with various problems of intermittence, grid integration, etc., associated with it, and in view of the fact that RE cannot meet peak demand, the DISCOMs will be compelled to make additional purchases of power on short-term basis through exchanges and in the market at higher prices, which would again impose avoidable additional burdens on the consumers. While issuing orders of renewable power purchase obligation, the Commission has to take requirements of the state into consideration for fixing the targets of minimum purchase of RE by the DISCOMs, not the targets being proposed by the government of India arbitrarily and without any responsibility and accountability for the adverse consequences that are, and would be, arising as a result of implementing its diktats. All the above factors are interlinked.

g) Based on changing ground realities, requirements as permitted in the long-term load forecast, resource plan, state electricity plan, etc., approved by the Commission for the control period concerned, an objective review periodically, especially when new PPAs come before the Commission for its consideration and consent, apart from annual review of performance of the licensees, need to be undertaken by the Hon'ble Commission to re-determine the requirements of the licensees already approved so as to ensure that addition of generation, transmission and distribution capacities are restricted to the extent required. It is all the more imperative in view of the constraints for the DISCOMs to sell surplus power in the market profitably, or, at least, without loss and profit, and non-availability of viable and economic storage systems which have not yet

materialised. When such systems are developed and put to use, surplus thermal power also can be stored and used as and when required.

h) **When true up is being allowed for the permissible claims of the licensees annually, true down claims also should be effected annually, not after the end of the control period concerned. When DISCOMs are being permitted to collect wheeling charges based on unrealistic and inflated projections and determination, that is, allowing them to collect more than what is legitimately due to them, allowing the licensees to retain the true-down amounts till review is undertaken for the entire control period, is nothing but penalising the consumers doubly for their no fault.**

16. **All the above-mentioned issues, among others, which have and will have a bearing on the tariffs to be paid by the consumers at large should be considered and determined after ensuring public consultation and holding public hearings.**

17. **As per contracted capacities approved in the distribution MYT for the 5th control period, while NPDCL has shown a contracted capacity of 3948 MW - 198 MW under 33 kv, 1212 MW under 11 kv and 2538 MW under LT – SPDCL has shown a contracted capacity of 10010 MW - 1712 MW under 33 kv, 2921 MW under 11 kv and 5377 MW under LT. Both the DISCOMs have proposed the following wheeling charges (Rs.per kv per month for long and medium term and Rs.per kva per hour for short-term open access) for 2025-26:**

Long & medium-term	**NPDCL**	**SPDCL**
33 kv	**51.26**	**53.21**
11 kv	**372.00**	**215.23**
LT	**1107.86**	**705.20**
Short-term open access		
33 kv	**0.0711**	**0.0739**
11 kv	**0.5167**	**0.2989**
LT	**1.538**	**0.9794**

There may be specific features in each DISCOM in terms of number of consumers covered under different voltage levels, distances need to be covered, etc. Nevertheless, substantial differences between the wheeling charges proposed by both the DISCOMs for consumers covered under same voltages need to be subjected to prudence check, especially in terms of expenditure incurred and proposed to be incurred for maintaining and adding capacities under distribution network. I request the Hon'ble Commission to prune various expenditures and wheeling charges proposed by the DISCOMs for 2025-26 and determine them realistically.

18. **I request the Hon'ble Commission to provide me an opportunity to make further submissions during the scheduled public hearing after receiving and studying responses of the DISCOMs.**

Thanking you,

Yours sincerely,

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