To

The Secretary

Telangana Electricity Regulatory Commission

Sy. No.145-P, Vidyut Niyantran Bhavan

Kalyan Nagar, GTS Colony, Hyderabad October 5, 2024

Respected sir,

Sub : Submissions on the true-up claims for FY 2022-23 and multi-year tariff for the fifth control period from 2024-25 to 2028-29 and determination of input price of coal supplied from integrated mine in OP No.19 of 2024 and IA No.18 of 2024 filed by Telangana Power Generation Corporation Limited

With reference to the public notice dated 24.9.2024, inviting suggestions and objections from interested public, am submitting the following points for the consideration of the Hon'ble Commission:

1. As per the MYT Regulation No.2 of 2023, TGGENCO should have filed the subject petitions by 31.1.2024. Going by the date in the subject petition, GENCO has submitted the same on 20.9.2024. In other words, there is a delay of nearly seven months and 19 days. Whatever be the reasons given by GENCO, the avoidable delay in filing the subject petition is not justifiable.

2. In response to my requests made in my preliminary submissions dated 23.9.2024, the Hon'ble Commission has conveyed in its reply dated 27.9.2024 that it "is not inclined to extend the last date for submission of objections/comments on the filings of Licensees." It has further stated that "in addition to submission of objections/comments, the stakeholders can also submit their objections/comments in the scheduled public hearings. The Commission recognizes the contribution of the submissions of knowledgeable and interested stakeholders and the same will be considered." Since the Hon'ble Commission has not responded to the reasons given by us in support of our requests, we are constrained to come to the conclusion that it is inclined to complete the entire regulatory process in eight petitions (now, one more petition of TGGENCO in OP No.22 of 2024 for extension of PPAs of some projects is also taken up by the Commission, inviting objections and suggestions to be submitted on or before 18.10.2024), including the subject petition, within the unreasonably short period of time and issue its orders and that it has condoned the delay in filing the subject petition. There is no response from the Commission to my

subsequent submissions dated 27.9.2024. As such, we are making submissions on the petitions to the extent possible in view of the constraints of time given.

3. **In the subject petition, TGGENCO has sought a true up of Rs.963.18 crore for the year 2022-23. It has shown an additional capitalization of Rs.402.05 crore and the depreciation is shown as lesser by Rs.18.93 crore for its power stations against Rs.1416.97 crore approved for the year 2022-23 in the MYT order. GENCO has claimed that it has adjusted Rs.226.96 crores from Rs.242.54 croe realized from sale of scrap of KTPS towards unabsorbed depreciation of the project as allowed by the Commission in the mid-term review order dated 23.3.2023. While additional capitalization is low, depreciation charges came down nominally. Moreover, no new generation station was added during 2022-23. However, GENCO has not explained the reasons for such a variation.**

4. **Against Rs.1001.61 crore approved in the MTR order, GENCO has shown actuals at Rs.1945.66 crore, i.e., an increase by Rs.44.05 crore for interest on loan and finance charges. Similarly interest on working capital is shown as increased by Rs.70.74 crore. GENCO has explained that variation in interest and finance charges approved in MTR and true-up is on account of the variation in loan balances. When GENCO has claimed that depreciation has been considered as normative loan repayment, it has not explained as to how it is leading to variation in loan balances and whether depreciation is to be considered as per applicable rates permitted by the Commission or as normative loan repayment.**

5. **GENCO has shown higher expenditure by Rs.70.74 crore of interest on working capital. While claiming that the interest is considered as 9.44%, GENCO has not explained whether the increase in interest rate is due to variations in its rates or the higher expenditure is due to drawing higher working capital. Energy dispatched from thermal stations of GENCO during 2022-23 is shown as less than their threshold levels of PLF. In other words, compared to coal and oil required for generation at threshold levels of PLF and normative parameters determined by the Commission, purchase and consumption of coal and oil must be lesser. Moreover, GENCO has shown reduction of energy charges to Rs.7894.827 crore against Rs.7994.067 crore approved in the MTY, i.e., a reduction of Rs.99.24 crore. As per normative parameters determined by the Commission, requirements of working capital are being determined. In such a case, need for working capital and interest thereon must have come down.**

6. **GENCO has shown incentive for its thermal stations to the tune of Rs.25.70 crore. It is for KTPP stage II and KTPS stage VI. Both the stations did not exceed their**

normative generation or threshold level of PLF. Therefore, the question of incentive for generation and supply of power exceeding the threshold level of PLF does not arise. Moreover, GENCO has claimed that energy charges for 2022-23 for both the stations have come down by Rs.99.806 crore for KTPP stage II and by Rs.148.071 crore compared to what is approved in the MYT - Rs.1427.174 crore for KTPP stage II and Rs.1271.83crore for KTPS stage VI. GENCO has not explained how it has worked out generation eligible for incentive in view of the said position.

7. **GENCO has explained that out of Rs.792.06 crore of O&M expenses claimed under true-up, Rs.696.68 crore is towards employee expenses, i.e., pay revision, etc., alone. However, it has not given break-up of various components of O&M, including "additional pension liability," leave aside their permissibility. We request the Hon'ble Commission to examine the claims of GENCO in the light of applicable regulations and take appropriate decision on to what extent "the actual employee expenses for FY 2022-23 as claimed" are permissible. Similar yardstick may be applied for increased A&G expenses claimed "on account of wage revision for Security expenses."**

8. **GENCO has requested the Hon'ble Commission to approve the actual R&M expenses incurred "as per the unexpected needs arising during the regular overhaul of the stations, considering the fact that not attending the identified issues shall result in loss of availability the unexpected needs are attended." GENCO has neither shown the amounts claimed to have been spent accordingly, nor has it explained how and for which plant such expenses were incurred and the benefits, if any, derived and to be derived. Since normative provisions have been made in the MYT order for R&M expenses every year, prudent expenditure is expected to be within those limits. Therefore, we request the Hon'ble Commission to reject such unsubstantiated claims of GENCO, after determining their permissibility or otherwise.**

9. **GENCO has claimed a sum of Rs.174.19 crore for true-up under return on equity against Rs.1812.69 crore for 2022-23 approved in the MTR order. GENCO has not explained how did equity of GENCO in the existing projects increase during the FY under consideration and justification and permissibility for the same. Therefore, we request the Hon'ble Commission to reject the claim of GENCO for true-up under return on equity.**

10. **The claims for true-up under various heads shown by GENCO should have been or must have been included in the monthly bills during 2022-23. The very fact that GENCO is making the said claim under true-up indicates that either it did not**

include the variations in its monthly bills for supply of power made or that the DISCOMs did not consider such claims as permissible. As two of the respondents, TGSPDCL and TGNPDCL should respond to the true-up claims of GENCO for 2022-23. We request the Hon'ble Commission to get responses or counters of the respondents, including ESCOMs the state of Karnataka, in its web site, along with submissions of objectors in time to enable us to study the same and make further submissions.

11. Apart from the claimed true-up for 2022-23, what are the accumulated dues, if any, to GENCO from TGDISCOMS and other respondents? Did GENCO include surcharge for belated payment by the DISCOMs for 2022-23, and, if so, how much?

MULTI-YEAR TARIFF PETITION FOR THE 5TH CONTROL PERIOD:

1. In addition to energy charges per unit for each thermal plant, GENCO has projected a huge sum of Rs.43713.14 crore towards fixed charges for the entire 5th control period from 2024-25 to 2028-29. The following projections (Rs. in crore) are made by GENCO for the 5th control period:

Depreciation	Rs.4636.35 crore
Interest on loan and finance charges	4789.86
Interest on working capital	1664.46
O & M expenses	14129.07
Return on equity	10722.02
Non-tariff income	- 593.329
Addl. Pension benefits	8205.46
Water charges	169.25
Total fixed charges	43713.14

2. GENCO has maintained that, while approving capital investment plan for the 5th control period, the Commission has not approved certain claims by either deferring the claim for submission at the time of true up or by stating non-conformation with TGERC Regulation No.1 of 2019. For KTPP I and II and KTPS V & VI, the Commission directed to claim additional capitalization towards FGD during the time of true up in the year which the FOD works are carried out. While pointing out that, for the works which are not allowed as the same were out of scope of original works or falling out of cut-off date of the project, GENCO has requested the Commission to consider the same as additional capitalization, since such works are either genuinely required for the efficient operation of the project or such works are falling beyond cut-off date of

the project on account of factors which GNECO is claiming are not fully under its control. After declaration of COD of the project concerned, as approved by the Commission, GENCO is not entitled to claim additional capital cost and additional capitalization as it likes. Such an approach goes against the prudent approach of need for completing the project within stipulated time and cost. If such works were genuinely required for efficient operation of the project, they should have been incorporated in the DPR and capital cost proposed originally. GENCO has not even explained what those works were and how and why they were not proposed in the DPR and what were the factors beyond its control. Therefore, we request the Commission not to allow such additional capital expenditure and additional capitalization.

3. **GENCO has pointed out that for certain amount claim of additional capitalization, the Commission has not approved its claim, as it is not substantiated with documentary evidence of test results or independent agency reports. GENCO has submitted that, considering the order of the Commission, some of the works are proposed to be dropped. In other words, GENCO is admitting that the works proposed to be dropped are not required and justified and that it is in the habit of proposing works which are not "genuinely" required. For works which GENCO has claimed are "genuinely required for efficient operation of the plant," it has requested the Commission to approve its claim of such additional capitalization, proposing to submit "documentary evidence for such works" during the true up. The failure of GENCO to submit required documentary evidence to establish that those works are genuinely required for efficient operation of the plant, how efficiency in operation of the plant would enhance on account of those works and additional benefit that would accrue shows inefficiency in its approach, planning and functioning. The requests of GENCO should be rejected.**

4. **Similar submissions are made by GENCO for "certain works which are genuinely required for the efficient upkeep of the assets" which it has claimed to have observed in the course of time after submission of capital investment plan on 1.4.2023. Here, too, we request the Hon'ble Commission to reject the requests of GENCO for the reasons explained above.**

5. **GENCO has proposed continuous hike in depreciation charges during the 5th control period on yearly basis - from Rs.779.74 crore for 2024-25, Rs.866.56 crore in 2025-26, Rs.970.44 crore in 2026-27, Rs.1003.83 croe in 2027-28 and Rs.1005.83 crore in 2028-29. Most of the plants of GENCO are old ones. As such, depreciation should show a declining trend year on year. Obviously,**

GENCO has included capital expenditure for works which the Commission did not allow in the investment plan for the 5th control period or yet to examine and consider in the subject petition. Therefore, we request the Hon'ble Commission to prune the depreciation charges proposed by GENCO for the reasons explained in paragraphs 2, 3 and 4 above.

6. **GENCO has claimed that the interest on loan has been calculated on the normative loan balance for the year by applying the weighted average rate of interest. Interest has to be paid on actual balance of loan at applicable rates, not on normative loan balance. Here, too, loan components, if any, spent for works not approved by the Commission should not be considered for calculating interest to be paid on loans.**

7. **Interest on working capital (IoWC) has been considered as 10.15% for the 5th control period, based on the rate prevailing as on 15.12.2-23 by GENCO. The weighted average landed price of coal and oil for the last quarter of 2023-24 is considered for 2024-25 with 3% escalation year on year till 2028-29. Escalation for a period of four years should not be considered in advance, as any variation in energy charges can be shown in monthly bills and collected from the DISCOMs as per applicable terms and conditions in the PPAs of the thermal plants concerned.**

8. **GENCO has claimed that most of the employees cost of common services vix., colonies, office buildings, schools, etc., for KTPS O&M and KTPS VII are met in KTPS O&M. The Hon'ble Commission is aware that to our suggestion that expenses for colonies of employees should be borne by SCCL in view of the substantial profits it has been earning on its thermal power project, the Company agreed and withdrew its claims. We request the Hon'ble Commission to see that a similar adjustment of such expenses is made in the case of APGENCO's projects also. GENCO has maintained that, in respect of BTPS, average of 2 years (FY 2022-23 and FY 2023-24) of employee, R&M and A&G expenses are considered for arriving base year expenses for the 5th control period. These expenses should be considered based on what the Commission approves them for the FY 2022-23 in the true-up exercise.**

9. **GENCO has maintained that employee and A&G expenses have been arrived for the 5th control period based on average of actual expenses for the 4th control period and escalated with CPI and WPI of 5.8% and 4.90%, respectively. However, true-up exercise for the last two years of the 4th control period is yet to be undertaken by the Commission. Without determining permissibility of the**

expenses for the last two years of the 4th control period, taking average of the expenses for the entire 4th control period would lead to inflated O&M expenses for the 5th control period. We request the Hon'ble Commission to take a realistic view and determine O&M expenses for the 5th control period appropriately.

10. **Return on equity should be determined as per applicable rates., after deducting impermissible components of equity being claimed by GENCO. We have been repeatedly submitting to the successive Commissions to give a piece of advice to GoTS to take over pension liabilities of its power utilities once for all, as imposing such liabilities, including interest thereon, over the years on the consumers is unfair for the reasons explained in detail in our earlier submissions. However, there has been no positive response so far. When GENCO has requested the Commission to allow it to submit actual expenses during true up of respective year, need for allowing additional pension liability as a separate item in the MYT is unwarranted.**

11. **GENCO has submitted that the weighted average landed price of coal and secondary oil for the last quarter of 2023-24 is considered for FY 2024-25 with 2% escalation year on year till FY 2028-29. It needs to be examined how coal and secondary fuel were procured for the last quarter of 2023-24, from which sources and at what cost, as well as mode of transportation and its costs, and whether similar pattern would be applicable for the 5th control period, before determining energy charges. In any case, GENCO has maintained that actual energy charges shall be claimed as per the actual price of primary fuel and secondary fuel and GCV as per the applicable Regulations.**

12. **GENCO has requested the Commission to allow auxiliary consumption of BTPS as 8.792% against 8.5%, as certain modifications were carried out to Boiler and ESPs. How and why modifications for boiler and ESPs were carried out, leading to increase in auxiliary consumption, is not explained by GENCO. Therefore, claimed increase in auxiliary consumption should not be permitted.**

13. **The items mentioned under payment mechanism must have been incorporated in the PPAs and approved by the Commission. If so, all those need to be implemented.**

15. **We request the Hon'ble Commission to provide us an opportunity to make further submissions after receiving responses of TGGENCO and during the scheduled public hearing.**

Thanking you,

Yours sincerely,

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