

To

The Secretary

Telangana Electricity Regulatory Commission

Sy. No.145-P, Vidyut Niyamtran Bhavan

Kalyan Nagar, GTS Colony, Hyderabad – 500 045

October 2, 2024

Respected sir,

Sub : Submissions on the ARR and charges for transmission business of TGTRANSCO in OP No.14 of 2024 and activity of the State Load Dispatch Centre in O.P.No.15 of 2024-25 for the 5th control period from 2024-25 to 2028-29

With reference to the public notices dated 20.9.2024, am submitting the following points on the subject proposals of the TGTRANSCO and SLDC for the consideration of the Hon'ble Commission:

1. As per the Regulation No.2 of 2005, TGTRANSCO and SLDC should have filed the petitions by 30th November, 2023 for their transmission business and SLDC activity. As per the MYT Regulation No.2 of 2023, TGTRANSCO and SLDC should have filed the subject petitions for the 5th control period on or before 31st January, 2024. Though the Hon'ble Commission, in its letter dated 7.2.2024, rejected the request of TGTRANSCO for extension of time by three months, they have submitted the subject petitions on 19.9.2024 going by the date shown in the subject petitions. In other words, there is a delay of nearly seven months and 19 days. The reasons given by the licensees for the avoidable delay are 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 within the unreasonably short period of time and issue its orders and that it has condoned the

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delay in filing the subject petitions. As such, we are making submissions on the petitions to the extent possible in view of the constraints of time given.

3. TGTRANSCO has made submissions in the subject petitions on ARR, transmission charges for the 5th control period and true-up/true-down claims for the 4th control period and activity of SLDC for the 5th control period. At the outset, I compliment TGTRANSCO for its commendable efforts for reducing during the 4th control period and proposing to further reduce transmission losses and maintaining so far and proposing to continue availability of transmission network at 99.9% during the 5th control period and wish further success in its working in serving the power sector and consumers and recognition at the national level for its meritorious service.
4. TRANSCO has shown actual ARR of Rs.16346.10 crore against Rs.15761.81 crore approved by the Commission for the 4th control period, i.e., an increase of Rs.584.59 crore. It has proposed as special appropriation of Rs.582.68 crore towards balance amount under true-up for the 5th control period and adjusted it from the proposed ARR for 2024-25. TRANSCO has shown an increase in net operation and maintenance expenses for the 4th control period to the tune of Rs.428.90 crore, i.e., an increase from Rs.4693.16 crore to Rs.5122.06 crore. The reasons given for the variations are that wage revision with effect from 1.4.2022 which was not factored in the ARR for the 4th control period, final allocation of employees during bifurcation was settled as per the order of the Supreme Court, resulting in increase of employee benefit expenses and provision for pension and gratuity, medical reimbursement and leave salary made in the 4th control period based on the actuarial valuation reports for respective years. We request the Hon'ble Commission to examine the following points:
 - a) Proposal of TRANSCO for a true-down of Rs.582.68 crore for the 4th control period confirms that impact of revision of pay and allowances of employees, though not factored by it in its ARR proposals, have been factored actually by the way inflated ARR claimed by it and approved by the Commission. For earlier control periods also such inflated claims and approvals were made. This is despite the fact that there has been a decrease in non-tariff income by Rs.104.76 crore, i.e., from Rs.2321.91 crore approved by the Commission to the actual of Rs.2217.15 crore accrued and increase in provision for income tax by Rs.193.60 crore compared to Rs.325.17 crore approved by the Commission during the 4th control period. Despite higher expenditure, that TRANSCO has shown the said substantial amount under true-up confirms how unrealistic and inflated the projections made and approved for the 4th control period. We once

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again submit that there is a need for realistic projections and determination of ARR and transmission charges by the licensee and the Commission, respectively, for the control periods concerned to avoid burdening of the consumers finally with excess transmission charges and adjusting the true-down amounts in the ARR claims for the first year of the subsequent control period.

- b) While the TGDISCOMs have been making claims for true-up constantly, TRANSCO has been making claims for true-down for MYT. Transco has not explained additional revenue on account of improvements in efficiency like reduction of transmission losses over the targets fixed by the Commission for the 4th control period and various works taken up for improvement of the system. In other words, higher revenue accrued to TRANSCO during the 4th control period is mainly on account of inflated ARR projected and transmission tariff proposed and approved.
- c) As a result of the order of the Supreme Court, finding fault with the decision of the managements of the power utilities of GoTS in not taking a number of employees into service, may be, at the behest of the then government, how much amount was paid by TRANSCO to such employees for the period they were not taken into service and how that amount was adjusted and how it was approved by the Hon'ble Commission? For the failures of commission and omission of TGTRANSCO and other power utilities of GoTS in this manner, the avoidable additional burdens should not be allowed to be imposed on the consumers by factoring them in the O&M expenses. How many engineers and staff were promoted and later demoted as a result of such a questionable action of the management and in view of the order of the Supreme Court? What has been the financial impact on account of such actions which remind one of the historical fact of shifting the capital from Delhi to Daulatabad and back to Delhi? Instead of demoting the engineers and staff promoted in this manner, have TRANSCO and other power utilities of GoTS thought of creating supernumerary posts to ensure continuance of such engineers and staff with the ranks of promotions to avoid humiliation of demotion?
- d) In its orders on annual performance of TGTRANSCO and SLDC, as requested by the licensees, the Hon'ble Commission has been permitting them to adjust the true-down amounts claimed for the FY concerned in the next control period, instead of adjusting that amount in the ARR filing for the next FY as proposed by it. However, for the period delayed in truing down the determined amounts, the Commission has not been directing TGTRANSCO and SLDC to pay carrying costs to the DISCOMs, though we have been requesting the

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Commission for the same repeatedly. Adjusting true-down claims in the ARR for next financial year also ensures undue benefit to the licensees, as, such an adjustment over a period of twelve months in the form of transmission charges, etc., without carrying cost, would result in payment in advance. In other words, the licensees are getting undue benefit at the cost of consumers. Obviously, a considerable part of its requirement for working capital has been met from the true-down amounts during the 4th control period, without interest thereon. For true-up claims, the Commission has been approving carrying costs for the period of delay as in the case of the DISCOMs. We once again request the Hon'ble Commission to direct TGTRANSCO and SLDC to pay carrying costs to the DISCOMs for the period of delay in adjusting true-down claims or repay the amount to the DISCOMs immediately after orders on annual performance review of TRANSCO and SLDC are issued by it.

5. TGTRANSCO has made the following projections for the 5th control period:

Total contract capacity (in MW): Out of TS share of 24466.26 MW, the share of TSDISCOMs as contract capacity of TRANSCO is projected as hereunder:

	2024-25	2025-26	2026-27	2027-29	2028-29
<i>P. 42/ARR booklet</i> ←	22590.84	22359.01	22276.22	22131.05	21606.63 → <i>P. 42</i>
Energy availability					
to TGDISCOMs MU 95,753		106,637	106,157	105,506	102,784
Energy requirement 83,058		87,564	92,365	97,482	102,942
Surplus/deficit	12,696	19,073	13,793	8,024	<u>-158</u>
Capital expenditure 4,301.32		3,872.69	3,488.10	2,123.84	1,374.04
Capitalisation 4,848.95		2,996.04	5,911.01	3,173.46	2,117.22
ARR 2,969.68		4,009.95	4,459.72	5,009.83	5,492.77

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(The last three items of TRANSCO are in Rs.crore)

Transmission tariff for long-term and medium-term consumers (Rs./kw/month):

<i>P. 42</i>	109.55	149.45	166.83	188.64	211.85
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TRANSCO has submitted that wage revision to the employees is due with effect from 1.4.2026 and that its impact is not factored in the above projections. It has maintained that the impact of wage revision will be claimed separately based on actuals. In other words,

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impact of wage revision should be claimed based on actuals from time to time under true-up by TRANSCO. Since it is not factored in the ARR projected for the 5th control period, the Hon'ble Commission is expected to take a realistic view in determining ARR and transmission tariff, contrary to the earlier practice of determining inflated requirements, leading to recovery of the impact of wage revision not specified or substantiated in the MYT order concerned. We request the Hon'ble Commission to consider the following points, among others, while determining ARR and transmission tariffs proposed by TRANSCO:

a) Originally, TGTRANSCO submitted the following projections, based on projections of the DISCOMS, for its resource plan for the 5th control period :

	2024-25	2025-26	2026-27	2027-28	2028-29
Energy Availability	120222.65	126791.41	126440.73	126018.08	121516.01
Energy Requirement	84996.88	89766.97	94773.75	100285.88	105956.88
Surplus energy	35225.77	37024.22	31666.98	25732.20	15559.03

Based on additional information submitted by the TGDISCOMS, TGTRANSCO revised its projections for its resource plan for the 5th control period, drastically reducing the abnormal projections shown earlier as hereunder:

	2024-25	2025-26	2026-27	2027-29	2028-29
Energy availability	93191	100071	99840	00136	96449
Energy requirement	90587	94885	00371	104310	109354
Surplus/deficit (MU)	2604	5186	409	-5174	-12905

In view of vast divergence between the projections made for the 5th control period earlier in resource plan and now in the subject petitions, actual availability, actual requirement and actual surplus/deficit during the 4th control period need to be submitted by the licensees and examined by the Commission for making realistic projections for the 5th control period and the same be provided to us to make further submissions during the scheduled public hearings. Similarly, to what extent TGTRANSCO added transmission capacity vis a vis the capacity additions approved by the Commission in the form of related transmission works and capital expenditure for the same, and to what extent such a capacity has been utilized or lying idle during the 4th control period need to be explained by TRANSCO and examined by the Commission. In the first year of the 5th control period itself, substantial variance is shown between the earlier and present projections, indicating how projections

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are being made hastily and changed in an unrealistic manner. These unrealistic projections for the 5th control period may lead to overestimation of ARR and transmission tariffs. Just as excess generation capacities and high cost power contracted under PPAs by the DISCOMs lead to stranding of generation capacities, backing down surplus power and payment of fixed charges for the same, creation of unwarranted transmission and distribution network capacities would lead to stranding of such capacities and imposition of avoidable financial burdens on the Discoms and their consumers.

b) A substantial downward trend in capital expenditure on annual basis during the 5th control period is projected in the subject petitions. There is a wide fluctuation in capitalization on annual basis. The projected transmission contracted capacity is almost stagnant on annual basis during the 5th control period. However, there is consistent and substantial increase in ARR and, as a result of it, in transmission tariff proposed by TRANSCO on annual basis. TRANSCO has not explained the reasons for such a divergence in its projections between expenditure and ARR and between contracted capacity and higher tariffs projected.

c) Going by the peak grid demand recorded for 2023-24 of 15623 MW during the summer season and projection of annual transmission contracted capacity for the 5th control period, and availability of substantial surplus power likely to be backed down, a thorough prudence check of the capital investment proposed by TRANSCO and its pruning to realistic levels is imperative on the part of the Hon'ble Commission.

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d) TRANSCO has not explained to what extent the contracted capacity was utilised during the 4th control period, in light of maintaining system availability of 99.98 percent or to what extent such capacity remained underutilised. Under-utilisation of transmission capacity, or over-creation of transmission capacity, is a serious issue taken note of by the Forum of Regulators. By the way controversies have been going on on implementation of lift irrigation projects and scope for their utilization, the transmission network being set up by TRANSCO to meet requirements of those projects and schemes falls in the realm of uncertainty. As such, whether the capitalization of works of transmission network intended for such projects and schemes deserves to be taken into account for determining ARR and transmission tariffs for the 4th control period, especially for the FY 2024-25, is a big question mark.

e) For the 4th control period, TRANSCO has shown deficits for two years - Rs.64.88 crore for 2019-20 and Rs.160.80 crore for 2021-22 - and surplus for three years - Rs.173.94 crore for 2020-21, Rs.579.05 crore for 2022-23 and Rs.55.37 crore for 2023-24 (provisional) - as per the Annual Performance Review orders of 'the

Commission, that, too, after the Commission disallowing a hefty sum of Rs.719.96 crore from the claims of the licensee. There were substantial deviations in net expenditure, with no deviations in non-tariff income and revenue from tariff for the first three years of the 4th control period. However, for the last three years, there were substantial deviations in net expenditure, with only marginal deviations in non-tariff income and revenue from tariff for the last year only. Increase in revenue accrued from transmission charges to the tune of Rs.24.76 crore during 2023-24 is mainly due to increase of revenue from open access customers, TRANSCO has pointed out. TRANSCO has filed a review petition with the Commission to consider income tax of Rs.41.12 crore paid by it for FY 2022-23 under MAT provisions. These trends, among others, during the 4th control period – disallowing a hefty sum of Rs.719.96, adjustment of impact of wage revision, impact on account of the orders of the Supreme Court, without any true-up, on the one hand, and claim for true-down of Rs.582.68 crore, on the other - confirm how unrealistic and exorbitantly inflated the projections and determination of ARR and transmission charges have been for the 4th control period. The way projections of ARR and transmission tariff proposed by TGTRANSCO are made for the 5th control period also indicates similar questionable trends inherently embedded in them and may lead to similar consequences that have arisen during the 4th control period.

6. The way in which the Hon'ble Commission is proceeding with its regulatory process on eight petitions, including the subject petitions, simultaneously and within an unreasonably shorter period casts doubts about its effectiveness to avoid scope for repetition of the kind of questionable trends that have taken place, as explained above, during the 4th control period in the orders to be issued for the 5th control period. Unlike in the case of petitions of the TGDISCOMs for the 5th control period, there is no indication, going by what is posted in the web site of the Commission, that it has sought clarifications from TGTRANSCO and that the latter has submitted required additional information. The Commission may seek and get required clarifications and additional information from TRANSCO relating to the subject petitions in order to make a realistic determination of ARR and transmission tariffs for the 5th control period.

SLDC

Proposals of SLDC:

1. For the 4th control period, SLDC has sought a true-up of Rs.12.95 crore on account of higher expenditure to the tune of RS.19.75 Crore after adjusting Rs.6.06 crore under true-up as per the APR orders given by the Commission. It has submitted that the increase is mainly due to pay revision during 2022-23: While projecting O&M cost for the fifth control period, SLDC has maintained

that wage revision was not factored in the projections and that the same will be claimed separately based on actual. However, total O&M expenses for 2024-25 are projected at Rs.65.96 crore out of which Rs.63.98 crore is for employee expenses only against employee cost of Rs.57.09 crore including deviation of Rs.19.11 crore for the last year of the 4th control period, i.e., 2023-24. What is the basis for such an increase from 2023-24 to 2024-25 without any impact of wage revision? Without impact of wage revision, SLDC has shown an increase in employee expenses of Rs.6.89 crore for 2024-25 from the revised employee expenses for 2023-24, whereas the increase in employee expenses year-on-year shown is about Rs.4 crore, without factoring impact of wage revision, from 2024-25 till the end of the 5th control period. SLDC has not explained as to why employee expenses increased by Rs.19.11 crore during the last year of the 4th control period alone and addition of Rs.6.89 crore for 2024-25.

2. Depreciation charges projected for the 5th control period have shown a steep hike in the second and third years. From Rs.1.65 crore in 2024-25, they are projected to increase to Rs.9.33 crore for 2025-26 and to Rs.16.51 crore for 2026-27. Similar trend is projected for capitalization, regulated equity and return on equity, indicating that there will be abnormal hike in expenditure during 2025-26. As a result, SLDC has proposed the following ARR and SLDC charges for the 5th control period:

	2024-25	2025-26	2026-27	2027-29	2028-29
ARR Rs.crore	83.59	89.16	110.26	114.08	118.11
Generation Contracted					
Capacity (MW)	23598.52	23366.69	23283.90	23130.72	22600.31
SLDC charges					
(Rs./MW/month)	2951.80	3179.74	3946.22	4109.97	4355.03

While contracted generation capacity is projected to be showing a slight declining trend year on year, ARR and, as a result of it, SLDC charges are projected to increase every year, especially an abnormal increase of ARR by Rs.21.10 crore and SLDC charges by Rs.766.48 per MW/month for 2026-27. Such wide fluctuations in the face of near stagnant contracted capacity during the 5th control period call for regulatory prudence check, both in terms of timing of implementation of the proposed works and investments for the same, in order to ensure desirable balance and pruning the proposed ARR and SLDC charges.

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

Thanking you,

Yours sincerely,

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