

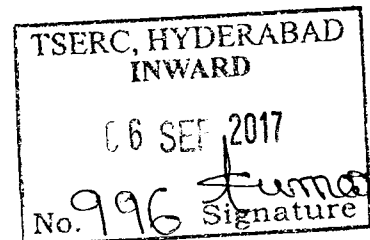
The Secretary  
Telangana State Electricity Regulatory Commission  
11-4-660, 5<sup>th</sup> floor  
Singareni Bhavan, Red Hills  
Hyderabad - 500 004

September 6, 2017

Respected Sir,

Sub : Submission of objections and suggestions on the proposals of TSSPDCL and TSNPDCL to levy additional surcharge on open access consumers for the year 2017-18 in O.P.Nos.22 of 2016 and 23 of 2016 respectively.

- JDL  
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1. In the subject petitions, the TS Discoms have requested the Hon'ble Commission to empower them to levy uniform additional surcharge @ Rs.1.95 per kvah on those consumers who procure power from open access in order to enable them to recover the fixed costs incurred due to obligation of power supply in accordance with Section 42(4) of Electricity Act, 2013. The Discoms have explained that to meet the future demand for power in the State, they have tied up adequate power from various sources. They have further informed that in 2017-18, the State is expected to add to the capacity to the tune of 2743 MW (1159 MW from conventional and 1584 MW from non-conventional sources) and that the total installed capacity would be 14,695 MW. They have explained that with adequate quantities of power they have contracted, they will be able to supply quality and reliable power to all consumers without any load shedding during 2017-18. Pointing out that during 2016-17, a total of 2,135 MU were procured via open access registering a growth rate of more than 100 per cent, as a result of which they stand to pay fixed charges and penalty to generators even in the event of any reduction in energy despatch from them due to drop in demand from open access consumers. Open access sales are leading to undermine recovery of the costs incurred by the Discoms which in turn may have an impact over the quality of power supply to other consumers, the Discoms have explained. If no additional surcharge is applied on the open access sales, it is expected that HT-I(A) industrial sales may see a decline in spite of projected growth rate of 12%.
  2. When the Discoms are serving all categories of consumers, including subsidised consumers, they have a social responsibility of providing cross subsidy to the subsidised consumers as decided by the Commission. When cross-subsidising consumers leave the Discoms under the arrangement of open access, the latter get deprived of revenue that accrues on account of cross subsidy. As a result, to the extent cross subsidy is lost, either the tariffs to the subsidised consumers or the subsidy to be borne by the Government will have to be increased. On the other hand, the suppliers and consumers under open access will have no obligation to provide cross subsidy, if there is no cross subsidy surcharge. In other words, it will create a situation which leads to resting social responsibility and additional burden with the Government and additional burden to subsidised consumers, on the one hand, and profits to open access suppliers and benefits to open access consumers, on the other. That is the reason why imposition of cross



subsidy surcharge and additional surcharge on open access consumers is permitted in the Electricity Act, 2003.

3. Whatever principles the Commission is following in determining cross subsidy in its tariff orders, the same should be followed in determining cross subsidy surcharge and additional surcharge also. It is more so because, in normal circumstances, open access purchases would be preferred by consumers if only the cost of such purchases is less than the tariffs to be paid by them to the Discoms for same quantum of power.
4. The arrangement of open access is a negation of regulation; it is one of the dichotomies in the reform process being fobbed off on the power utilities of the States by the Government of India. The costs of generation of power differ from one power station to another, depending on their capital cost, the costs of fuels they use, parameters of efficiency they can achieve, etc. In a multi-buyer system, when the Discoms purchase power from different projects at different tariffs through power purchase agreements, the average cost of power purchase and cost to serve each category of consumers are being taken into account to ensure uniformity in tariff to each category of consumers being determined by the Hon'ble Commission. It ensures some kind of equilibrium and equity. Irrespective of differences in costs of generation of power by different projects, once fed into the grid, the utility of energy is same to all the consumers. If cross-subsidising consumers of a category are allowed to procure power under open access, depending on the sources from whom they procure power, the tariffs they have to pay may differ. Such consumers get the benefit of reduction of tariff, if they get power from open access sources at tariffs lesser than what they have to pay to the Discoms. Similarly, open access sellers also may get the benefit of higher tariffs, if they can sell power at tariffs higher than they otherwise have to sell to the Discoms under due regulatory process, but less than the tariffs such open access consumers have otherwise to pay to the Discoms. It will lead to a situation when same categories of consumers have to pay different tariffs to the Discoms and open access sellers. In other words, regulation ensures uniformity and equity, whereas open access leads to inequity and lack of level playing field to same category of consumers, say, industries, i.e., between same category of consumers who purchase power from the Discoms and who purchase power from open access sources and even among the latter consumers themselves.
5. In a situation of severe scarcity for power that may arise as a result of faulty policies and failures of the Governments, among other reasons, when cross-subsidising consumers, subjected to severe power cuts, are forced or permitted to get power through open access from other sources, obviously, at a higher price than the applicable tariffs of the Discoms, imposing cross subsidy surcharge and additional surcharge on such open access purchases would tantamount to penalising such consumers for the failures of the Governments and their power utilities. Barring this exception, cross subsidy surcharge, as well as additional surcharge, should be determined and collected from the open access consumers buying power from other sources, even when the Discoms are supplying adequate power to them. In such a situation, if no cross subsidy surcharge, as well as additional surcharge, is imposed on such open access consumers, loss of cross subsidy and profits of the Discoms on account of slump in their sales to such open access, but

otherwise regular, consumers will lead to imbalances and affect the finances of the Discoms and their ability to adjust required cross subsidy. It will also lead to under-utilisation of transmission and distribution capacities created. It will also lead to increasing availability of surplus power and need for backing down the same and paying fixed costs for such non-generation of power. Therefore, the Discoms should ensure that their decisions for procurement of power should not lead to availability of unwarranted surplus power, with attendant avoidable burdens on consumers of power.

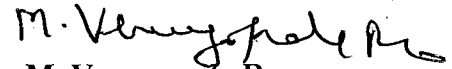
6. The amounts of cross subsidy surcharge proposed by the Commission for same category of consumers differ from one Discoms to another. This may be due to variance in cost to serve the same category of consumers under different Discoms. In the face of such variance in cost to serve the same category of consumers under different Discoms, uniformity in tariffs to the same category of consumers in the entire State is being maintained by the Government providing subsidy required by the Discoms. In the absence of any such arrangement to maintain uniformity in cross subsidy being provided by cross-subsidising consumers under different Discoms, variations in cross subsidy surcharge and additional surcharge to be provided by them arise. Here, in this case, it is likely that uniformity is being imposed arbitrarily and artificially by the Commissions, whereas uniformity in tariffs to same category of consumers under different Discoms in a State is being ensured with the subsidy being provided by the State Government. This is one of the cons of the reform process creating different Discoms in the State. The remedy to avoid such undesirable variations and inequitous arrangement and maintain uniformity is to merge all the Discoms into one.
7. When any cross-subsidising consumer leaves the Discom concerned, opting for open access, the transmission and distribution capacity created for such a consumer earlier becomes idle, depriving the Discom concerned of charges that were being collected for utilisation of T&D capacity, as a part and parcel of tariff that was being collected from such consumer till then. Till the utilities give new service connections, that T&D capacity continues to remain idle. Also, additional surcharge is intended to avoid loss of charges on account of such capacity remaining idle, in addition to fixed charges to be paid by the Discoms for backing down the surplus power that arises as a result of such open access transactions. Once Transco/Discom can make use of such idle capacity by serving the existing and/or new consumers, the need for collecting additional surcharge from the earlier consumer who opted for open access ceases.
8. Providing open access just for asking may not be feasible and desirable, for excess T&D capacity has to be created in advance to facilitate the same. It entails substantial investments and utilisation of such excess capacity is always subject to the volatile nature of open access transactions. Irrespective of the regulations pertaining to open access, an element of uncertainty and under-utilisation or even overloading of the system, with its attendant problems, are inherent in such an unplanned arrangement. Such constraints of availability of transmission corridor are being felt in getting additional power from one State to another and from one region to another. Unless T&D system is strengthened and expanded to create additional capacity to meet the requirements of growing demand

for power in a planned way, problems of overloading and higher losses will continue. It may even result in grid failures. The arrangement of open access is no substitute for planned development of the power sector, including T&D system, to ensure quality supply of adequate power at reasonable prices to the consumers.

9. It is a delicate task for the Hon'ble Commission to decide additional surcharge to be levied on open access consumers, with the dichotomy of ensuring regulatory process for maintaining uniformity in tariffs and protecting the interests of the Discoms, especially in view of their social responsibilities, on the one hand, and encouraging open access transactions, on the other. As such, for the reasons explained above, among others, the Hon'ble Commission may consider determining additional surcharge in such a way that it protects the genuine interests of the Discoms, on the one hand, and provides a marginal benefit to the open access consumers, in view of the fact that open access has to be permitted as a mandatory policy imposed by the GoI. I request the Hon'ble Commission to take into account the claim of the Discoms that the fixed cost commitment arising out of their obligation to maintain a robust distribution network, as well as payment of transmission charges to TS Transco, which work out to Rs.7245 crore, is not included in the costs while arriving at additional surcharge as worked out by them, while determining additional surcharge to be collected from open access consumers.

Thanking you,

Yours sincerely,



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

Copy to :

1. Chief General Manager (Commercial & RAC)  
TSSPDCL, Mint Compound, Hyderabad
2. Chief General Manager (IPC&RAC)  
TSNPDCL, Warangal.