To, The Secretary, A.P. Electricity Regulatory Commission, Singareni Bhavan, Red Hills, Lakdi ka pool, Hyderabad – 500 008	From, M. Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, 139, Kakatiya Nagar, Hyderabad – 500 008

Date: 0 -05-2013

Respected Sir,

Sub:- Submission of objections and suggestions on FSA claims of the APDISCOMs for the fourth quarter of 2012-13 and request to be heard in person – Reg.

Ref:- Public Notice published in Newspapers regarding FSA proposals filed by APDISCOMs with the APERC on 02-05-2013.

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1.1 Following the Public Notice published in Newspapers regarding FSA proposals for fourth quarter of FY 2012-13 filed by APDISCOMs with the APERC on 02-05-2013 we are submitting the following suggestions and objections for the consideration of APERC.

2.1 APDISCOMs proposed to recover Rs. 1137.70 crore through FSA of Rs. 1.0271 per unit related to power consumed during the fourth quarter of 2012-13.

2.2 APDISCOMs' FSA proposals show that while APERC approved procurement of 24,059 MU during the 4th quarter of 2012-13 DISCOMs were able to procure only 20,725 MU, a decline of 3,334 MU (13.86%). DISCOMs attributed the shortfall in power procurement to decline in hydel power and decline in gas supplies from ONGC and KG Basin. An examination of information provided by DISCOMs shows that DISCOMs failure to procure power from short term sources is also equally important reason for shortage in power during this quarter. While shortfall in power supply from hydel units was 715 MU it was 1,306 MU from short term purchases, even after crossing the unit price set by the Commission. The DISCOMs in their filings stated, "APDISCOMs were constrained to procure the power from short term sources through transparent tender procedure". But the fact as mentioned above they failed to procure the quantum of power approved by the Commission well in advance. In stead of being constrained they were given freedom to procure power from short term sources. Even with an advance approval they failed to procure the necessary quantum of power. The information provided by DISCOMs also shows that power was not procured from Power Exchanges. It is well known that prices from power exchanges are lower than that arrived through the so called competitive, transparent bidding procedure. There is need for close scrutiny of short term power purchases contracted by DSICOMs in the state during 4th quarter of FY 2013.

3.1 APDISCOMs submissions on FSA claims for 4th quarter of FY 2013 shows that out of total FSA claim of Rs. 1,137.70 crore Rs. 1,031.46 crore is towards variation in variable costs. In other words, 91% of the proposed FSA claim is because of increase in variable cost.

Table: 1 Per Unit Variable Cost Burden

Plant	Variable cost according to ARR 2012-13 (Rs/U)	Variable cost according to FSA Proposals for Q2 of 2012-13 (Rs/U)		
		January 13	February 13	March 13
Coal based plants				
NTPC (SR)	1.74	2.03	1.89	2.11
Simhadri I	2.10	2.13	2.32	2.33
KTPS – A, B, C	1.35	1.83	1.78	1.80
VTPS – I, II, III	1.94	2.88	2.97	2.97
VTPS – IV	2.65	3.06	3.02	3.28
RTPP	2.18	3.12	3.09	3.24
KTPS VI	1.76	2.58	2.38	3.01
Kakatiya I	1.75	2.40	2.31	2.24
Gas based plants				
APGPCL – St. 1	1.89	2.33	2.60	2.60
Reliance	1.72	2.01	1.99	1.99
Konaseema	1.80	2.04	2.02	9.99
Vemagiri	1.80	2.03	2.05	10.64
GVK	2.07	2.14	2.02	1.95
GVK Extn	1.80	2.05	2.07	--
Gautami	1.80	2.05	2.05	--
Spectrum	1.77	2.14	2.00	2.23
Lanco	2.04	2.19	3.45	4.43

3.2 The above table shows that in general the variable costs claimed to have been incurred by the generators is higher than that mentioned in the Commission's tariff order for the year. Within this there is wide variation in increase in variable costs of coal based plants of central generating stations (CGS) and APGENCO plants. In the case of CGS plants variation in hike on higher side is in the range of 6 to 20 percent. In the case of APGENCO plants it is in the range of 36 to 71 percent. Here it is also to be noted that in the filings for the 3rd quarter of the financial year in the case of coal based plants of CGS (NTPC (SR) and Simhadri) variable costs reported under FSA proposals were lower than those mentioned the in the Tariff Order for the year 2012-13. Both the CGS as well as GENCO plants obtain coal from the same sources. Like GENCO plants CGS plants are also using imported coal. Even then when variable costs of CGS declined that of GENCO plants increased. The use of imported coal may be one of the reasons! Even when local

coal production is being neglected there is rush for imported coal. CGS also use imported coal. In the case of GENCO pit head plants like KTPS and Kakatiya Power plant also variable costs increased considerably. Their variable costs are higher than CGS plants. There appears to be some this seriously wrong with the GENCO plants. When the increase in coal prices did not affect CGS much how is it that variable costs of GENCO plants increase by nearly 70%? It is the responsibility of APERC to see that this puzzle is solved in a transparent manner, to the satisfaction of all stakeholders. We request APERC to direct DISCOMs and GENCO to make all facts public.

3.3 Variable cost of gas based power plants also registered hike leading to the proposed FSA burden. The increase in variable cost of most of the gas based power plants ranged from Rs. 0.23 to Rs. 0.71 per unit. In the case of Lanco plant cost per unit increased by Rs. 2.39. in the case of Konaseema and GMR Vemagiri plants this hike is several times higher. While in the case of Konaseema plant cost per unit increased by Rs. 8.19 per unit it is Rs. 8.84 in the case of Vemagiri plant. The DISCOMs' proposals do no throw any light on the reasons for this hike. It may be because of use of costly imported RLNG. If the hike is because of use of RLNG how much of it is used to supply power to all consumers and how much of it is used for industrial units which subscribed for high cost power. It is also important o know on what basis particular plants were selected for use of RLNG. Lanco plant will be nearer to the gas pipeline with gas flowing from west compared to Konaseema and Vemagiri and this should have resulted in gas transmission cost by more than 15 paise per unit of electricity produced.

3.4 In this context it is also important to question the need to import this costly RLNG when gas produced in the vicinity is more than the state's needs? Besides this there are also doubts on decline in gas production form RIL's KG Basin wells. While RIL attributed the decline to geological uncertainties, and water and sand ingress into the gas wells leading to closure of a number of wells the Ministry of Petroleum and Natural Gas and Director General of Hydrocarbons did not accept this explanation. At the same time they did not take any concrete steps to reverse this decline.

Coal Related Issues:

4.1 One of the important reasons for increase in variable costs is the rise in coal prices both Coal India Ltd (CIL) and its subsidiaries and SCCL. Coal prices are increased even when the coal mining companies were reaping enormous profits. The mining companies in the country raised the coal prices by 25 to 40% even when they were reaping enormous profits. During the second quarter of the financial year 2012-13 Coal India Ltd., registered a net profit to Rs 3,078 crore. During the same period last financial year it earned a profit of Rs 2,593 crore. During this period while production increased by 11 percent profit increased by 18.7 per cent. CIL is said to be sitting on accumulated profits of over Rs. 62,000 crore. Even then it is increasing coal prices. Similarly SCCL is also increased coal prices from Rs. 2050 per ton to Rs. 2,700 per ton. Already SCCL is earning profit of more than Rs. 300 crore every year. With this price increase its profits

will increase further. Consumers in the state have to bear this burden from increased prices of coal. We request the Commission to direct the DISCOMs and the state government to negotiate with coal companies as well as the Ministry of Coal.

4.2 Another important reason for the proposed FSA burden is the use of costly imported coal.

Table: 2 Cost of Coal

NTPC Plant	Cost of Domestic Coal (Rs./MT)	Cost of Imported Coal (Rs./MT)	
RSTPS St. I & II	2489	5869	2.36
Simhadri – I	2059	5108	2.48
Talcher St. II	933	5745	6.16
VTPS IV	3219	5390	1.67
KTPS VI	3348	5390	1.61

As shown in the above table imported coal is two to six times costlier than domestic coal. Following this as consumption of imported coal increases cost of power generated also increases.

4.3 But this need not be the case as GCV of imported coal is higher than domestic coal. While NTPC information provided combined GCV of imported + domestic coal GENCO information provided GCV of imported and domestic coal separately. The GENCO information shows that the higher price for imported coal is in commensurate with its higher GCV. In the case of VTPS IV plant while cost of imported coal is Rs. 5,390 per MT and its GCV is 6,052 Kcal.kg, in the case of domestic coal price is Rs. 3,219 per MT and its GCV is 2,840 Kcal/kg. Similarly, in the case of KTPS VI plant while cost of imported coal is Rs. 5,390 per MT and its GCV is 6,216 Kcal.kg, in the case of domestic coal price is Rs. 3,348 per MT and its GCV is 4,158 Kcal/kg. These price relations show that imported coal shall not lead to increase in power generation cost.

4.4 But the information provided by DISCOMs show that the reported higher GCV of imported coal compared to domestic coal is not visible at the actual power generation stage. Imported coal is said to have 80% more GCV than domestic coal. 1.6 MT of imported coal is said to be equivalent to 2.88 MT of domestic coal.

4.5 The use of imported coal did not add significantly or make much difference to average GCV. During the month of January 2013 VTPS IV plant sourced one third of its coal from imports and achieved a GCV of 3561 Kcal/Kg. During the same month KTPP using domestic coal only achieved GCV of 3662 Kcal/Kg. Similarly, During the month of March 2013 also VTPS IV plant sourced one third of its coal from imports and achieved a GCV of 3508 Kcal/Kg and KTPP using domestic coal only achieved GCV of 3564 Kcal/Kg. information from NTPC plants also show similar trend. Use of imported coal did not significantly add to power generation. Take the case of NTPC's RSTPS I and II stages. During the three months of fourth

quarter of 2012-13 when imported coal was used GCV of these plants stood at 3723, 3660 and 3809 Kcal/Kg respectively. These plants during September, October and November 2012 when no imported coal was used achieved GCV of 4086, 3446 and 3746 Kcal/Kg respectively. Similar is the case with NTPC's Simhadri I plant. During the three months of fourth quarter of 2012-13 when imported coal was used GCV of this plant stood at 3376, 3340 and 3269 Kcal/Kg respectively. During the month of September 2012 when no imported coal was used GCV stood at 3297 Kcal/Kg. There is need to examine the actual GCV of imported coal is in relation to the price paid to it.

4.6 When compared to the cost of imported coal the actual GCV achieved do not hold any comparative advantage of depending on imported coal. This brings in to question the preference shown by some power developers to go in for imported coal. This shows that they are trying to benefit from the price differential at the cost of consumers in the country.

4.7 While the country has abundant coal reserves there is no logic in going for imported coal. Indian companies are showing more interest in developing imported coal fields than coal blocks allotted to them in the country. There is wide variance in the stated efficiency of imported coal and its cost in relation to domestic coal. It is more profitable to the power developers as well as consumers in the state to depend on domestic coal. But somehow all things "foreign" appears more attractive, including coal!

4.8 Coal India Limited produced 435 million tonnes of coal in 2011-12 from its reserves of 60 billion tones. At the same time public and private companies which are allotted coal blocks with aggregate reserves of 48 billion tonnes produced only 36 million tonnes of coal. The delay on the part of these companies may be deliberate as they planned to profit from import of costly coal.

4.9 Use imported coal was advocated on the ground that enough coal is not being produced within the country. But proper attempts are not made to increase coal mining within the country. APGENCO was allocated captive coal mines more than seven years back to mine coal for use in its power plants. But there was no initiative on the part of GENCO to use this for it's as well as state's advantage. This delay on its part led to dependence on costly imported coal. If the captive blocks allocated to it were operationalised as stipulated by the Ministry of Coal of GoI there would have been no need to depend on costly imported coal.

4.10 Tadicherla coal block was allocated by the Ministry of Coal, Government of India to APGENCO on 6th December, 2005 as a captive block for its power plants. Production of coal at this mine was expected to commence in December 2008. Similarly, Anisettypally, Punukula – Chilka and Pengadapa coal blocks were also allocated to APGENCO on 20th February, 2007 for captive consumption. But there was no movement on the part of APGENCO to start mining. According to the norms coal mining is expected to begin in three to four years from the date of allocation of coal blocks. As there was no progress either on paper or on ground the coal blocks

of Anisettypally, Punukula – Chilka and Pengadapa were de-allocated by the Ministry of Coal. In the case of Tadicherla the Ministry of Coal issued a show cause Notice to APGENCO, dated 3rd May, 2012. According to this Notice, "In the review meeting held on 11/12.01.2012 it was noticed that no serious efforts have been made by the Company to develop the coal block, even after repeated assurances tendered by the Company during the period. It is also noted that all the important/critical milestones such as grant of previous approval, Forest clearance, EMP, Mining Lease and Land acquisition are pending for Tadicherla – I coal block. The Company has repeatedly failed to keep its promise made to the Ministry and is thus non-serious about timely development of the block". They did not even procure relevant maps from SCCL.

4.11 Even when there is apparent and serious coal/fuel shortage no urgency was shown to utilize the resources made available to the GENCO. Rather it was stated that 30% of the coal is being imported at the directions of CEA. Because of inefficiency of GENCO consumers in the state are forced to bear the present FSA burden. Why shall consumers in the state pay for inefficiency of GENCO?

4.12 It is being alleged that delay in issuing environmental clearance for coal mining projects is coming in the way of mining enough quantity of coal. Environmental clearance is not an issue in delay in coal production. There appears to be deliberate delaying in coal production. Delay in environmental clearance is being shown as an important reason for lower coal availability in the country. But contrary to this the central Environment Ministry has already given enough clearances for coal mining. But there appears to be deliberate delay in commencing coal mining in the country to force imported costly coal on consumers in the country. According to a report Down to Earth (dated 15th November 2012), "India is estimated to produce 575 million tonnes (MT) of coal in 2012-13. In the past five years, **clearance has been given to almost double the existing capacity.** This despite companies, including the Coal India Ltd, producing much less than their capacity. According to the Comptroller and Auditor General Report, of the **86 coal blocks slated to begin production** by 2010-11, only **28 have commenced.** Besides, these blocks produced only 34.64 MT against the target of 73 MT—**a shortfall by 52%".**

4.13 We request the Commission to direct APGENCO to steps expeditiously to mine coal from Tadicherla-I block and also reclaim the three coal blocks de-allocated. This will go along way to reduce dependence of costly imported coal and in return reduce burden on electricity consumers in the state.

4.14 GENCO is also using coal from its captive mines apart from supplies from SCCL and CIL. We would like to know how they price the coal from their captive coal blocks.

4.15 Another issue that needs attention is the wide variation in coal prices being paid by GENCO. While KTPS V plant paid Rs. 1,571 per MT of coal KTPS VI plant paid Rs. 3,349 per MT of coal. This is basically because high cost e-auction coal is being imposed by coal companies on GENCO plants. While it is the responsibility of the coal suppliers to supply

quantities as agreed upon, they in the name of shortage of coal are imposing high cost coal on generators.

4.16 Here it is also to be noted that while KTPS VI is located within the Singareni Collieries area for it coal linkage is being provided from Mahanadi Coal fields.

Gas related issues:

5.1 One of the reasons for increase in variable cost of gas based power plants is the use of costly imported RLNG in these plants. These plants have to use RLNG as they were not allocated very meager amount of gas form KG Basin gas fields.

5.2 Though AP has access to more than 2700 MW gas based power generation capacity less than 500 MW capacity is only being operated due to shortage in natural gas availability. It is being alleged that this shortage is artificially created. There are two parts in the issue: low gas production and low gas allocation to power plants in AP. Gas production from KG basin declined from 60 MMSCMD to less than 20 MMSCMD. The RIL has attributed this decline to unexpected geological developments. Both the Director General of Hydrocarbons and central Ministry of Petroleum and Natural gas did not buy the argument of RIL related to decline in gas production from KG basin fields. Recently the Director General of Hydrocarbons demanded an explanation from RIL and its partners on various issues including not drilling the approved development wells and failing to adhere to the management committee approved plans. RIL attributed the decline in gas production to water and sand ingress in to the gas wells. The Director General of Hydrocarbons in its communication also pointed out that the work plan and budget submitted by RIL for the year 2012-13 did not contain any immediate firm plan for tackling issues of water and sand ingress. This clearly shows that increasing gas production is not the immediate concern of RIL. It is a clear case of hoarding on the part of RIL to benefit from hike in gas prices in future, and it is putting pressure on the central government to hike natural gas prices on the lines of RLNG. The power generation lost due to cut down on gas production from KG basin fields is nearly equal to peak power demand deficit. Had there been no decline in gas production there would have been no need for use of RLNG and purchases from open market at steep prices. Shortly after the Rangarajan Committee Report on gas prices, which recommended price of $8 per MBTU of gas, was submitted Mr. Mukhesh Ambani, Chairman RIL and Mr. Bob Dudley, Chief Executive of BP Group met the Union Minister Petroleum and Natural Gas Mr. Veerappa Moily on 19th February, 2013 and expressed their readiness to invest $5 billion on KG Basin gas production. With this investment they plan to develop around 4 TCF of discovered natural gas resources from the D6 block of KG Basin fields. Here it is also to be mentioned that one of RIL partners Nicky as a part of putting pressure on the central government to hike natural gas prices downgraded the gas potential of this field from 10 TCF to 3.5 TCF. As already nearly 1.5 TCF is already used only 2 TCF should have been left for exploration and development. But now RIL and its partners talk about developing 4 TCF. This itself speaks volumes about the artificial scarcity of gas created by RIL and its partners. In order to corner

windfall RIL did not hesitate to subject people of Andhra Pradesh to serious power cuts as well as unprecedented tariff hike. Morgan Stanley in its latest report has upgraded investment status of RIL and raised its target price to Rs 961 from Rs 798 earlier. The stock has the potential to gain nearly 19 per cent from 1st March, 2013's closing price of Rs 809.50 on the Bombay stock Exchange. Morgan Stanley viewed RIL's planned $5 billion capital expenditure for domestic exploration and production and the Indian government's inclination to linking gas prices in the country to international prices as some of the key factors in the upturn of RIL's share price. What more evidence do we need to link decline in gas production in KG basin to RIL's greed? When all this is going on in broad day light the political leadership in the state did not move even a finger to protect the interests of people in the state. Even the state government of Maharashtra demanded the central government to nationalise KG basin gas fields. It is high time political as well as official circles in the state take up this artificial decline in gas production in RIL's KG basin gas fields seriously with the central government. There would have been no need for the present FSA proposals had the gas production at KG basin were maintained at earlier levels.

5.3 from the first week of March 2013 natural gas supply from RIL's KG Baisn fields was stopped to power plants in AP. Even when gas was supplied to these plants out of the total gas produced from RIL's KG basin fields power plants in AP were allocated a small portion. In the past out about 25 MMSCMD of gas produced from these fields gas based power plants in AP were allocated only about 2.8 MMSCMD of natural gas. That is only about 10% of the gas produced from these gas fields was allocated to power plants in AP. In 2003 the APERC approved PPAs with new gas based power plants with a total capacity of 1500 MW on the assurance that adequate gas would be available to these plants from KG basin fields. The Commission had given approval to the PPAs of gas based power plants on the basis of assurance given by GAIL that there would be no difficulty in ensuring uninterrupted supply of gas from the KG basin. As an example here we take the Order issued by the Commission on 12-04-2003 in the case of PPA with Gautami Power Ltd (O.P. No. 5/2002). According to Para 102 (ii) of the order "The conditions on fuel are as detailed in Para 96 (b) on Fuel tie-up". According to Para 96 (b) (ii) "The gas supply agreement between GPPL and GAIL was due to expire by December 31, 2010 while PPA term is for a period of fifteen years from the project CoD. This implied that for the balance period of the PPA, GPPL had no fuel linkage from GIL. But GPPL has subsequently sought for extension of this date till December 31, 2018 based on assurance given by GAIL that they would enter into agreement with developers for supply of gas for the entire term of the PPA. APTRANSCO insists that the extension should take place before the singing of the PPA". Before this at Para 96 **(a)** (a) the Commission noted the clarification from GAIL, "GAIL does not envisage any difficulty in ensuring uninterrupted supply of gas to consumers in the KG Basin in the long-term". From this it is clear that the gas based power plants in AP are based on the availability of gas from KG Basin and the Commission had given approval to them on the basis of assurance given by GAIL and ONGC on availability of gas from KG Bain fields. This clearly implies that the gas based power plants in AP have come on the basis of availability of gas from KG basin. As such these power plants in AP shall have first right on gas available from these

fields. But contrary to this, these power plants are getting less than 10% of the gas available from KG basin fields. But once gas production started the assurance given to these plants was forgotten. As these plants were approved on the assurance of availability of gas these plants should have first right on the gas produced from RIL's KG basin gas fields. If adequate quantity of gas was allocated to the gas based power plants in AP there would have been no need for RLNG purchases, no open market procurement at high rates and new FSA proposals. It is high time the assurance given to these plants is delivered by the central government.

5.4 The Commission as well as the Government of AP shall see to it that the gas from KG basin is transported outside AP only after meeting full requirement of gas based power plants in AP. It is a travesty of justice that while plants based on natural gas are being forced to import costly LNG the plants which are originally planned to run on imported LNG is being allocated natural gas from KG basin. The sooner this injustice ends it is better for the state as well as the country.

5.5 Overall, steps shall be taken to see that adequate gas is allocated to AP gas based power plants to save electricity consumers in the state from frequent FSA burden. It is high time the rights of the AP plants were restored. Once this is done not only power generation cost will come down but also availability of power in the state will increase. The present FSA to a large extent is a result of shortage of power supply in the state.

Gas Allocation to Merchant Plants

5.6.1 Even when gas based power plants with approved PPAs with DISCOMs are running short of natural gas two merchant plants belonging to Lanco and GMR groups were provided gas linkage with the recommendation of the state government, against the clear direction of the central government's directive that this gas shall not be provided to the plants that sell power at market rate. Because of this high cost of power has to be procured form these two plants. Up to Rs. 5.60 per unit was paid for power procured form these two merchant plants, even violating APERC's limit on price to be paid to open market purchases. If the same gas was made available to the plants with approved PPAs less than Rs. 2 per unit would have been enough to access the same power. 48.28 MU of power was purchased from these two plants during the fourth quarter of 2012-13 with an additional burden of Rs. 16.57 crore. This implies that Rs. 16.57 crore additional burden was imposed on electricity consumers in the state because of diversion of gas to merchant power plants. We request the Commission not to allow this additional burden.

5.6.2 During the first quarter of 2012-13 Rs. 155.72 crore additional burden was imposed on the consumers in the state by diverting gas from plants with PPAs to merchant plants of Lanco and GMR. During the second quarter of 2012-13 this amount stood at Rs. 97.33 crore. During the third quarter of 2012-13 this amount stood at Rs. 62.77 crore. During the years 2010-11 and 2011-12 Rs. 865 crore burden was imposed on the consumers in the state due to allocation of gas to these two merchant plants. Since 2010-11 the electricity consumers in the state have to pay Rs.

1200 crore additionally. The same shall be recovered from the merchant power plants. If this amount is recovered there will be no need to impose the FSA proposed by the DISCOMs. These payments made to merchant plants of Lanco and GM R can be recovered through retaining payments to be made to power produced from the older units of these plants.

5.6.3 Natural gas from RIL's KG Basin was allotted to merchant plants of Lanco and GMR on the recommendations of the GoAP. While allocating gas to these plants the EGOM laid down the condition that they should supply power produced from this gas to DISCOMs within the state at the rate determined by the Commission, through a long-term PPA. But for a considerable time they supplied power outside the state in violation of conditions laid down by the EGOM. After a hue and cry in the state they started supplying power in the state but at the open market. This entailed huge burden on the consumers in the state.

5.6.4 Even when the EGOM terms clearly state that these merchant plants shall enter in to long term PPAs to be eligible for gas allocation all these while they avoided entering in to long term PPAs and selling power at open market prices. There is reported to be a short term PPA with these merchant plants. As for as we know Commission has not approved these. There is no proceeding approving these short term PPAs. There were only mentions that DISCOMs approached the Commission to determine the price for these plants.

5.6.5 EGOM was reported to have decided on 24-02-2012 "that as M/s Lanco Kondapalli (Expansion) and GMR Tanir Bawi have signed the short term PPA till 30-05-2012 … after which the supply would be suspended if they fail to comply with the conditions specified by the EGOM for supply of domestic gas". This implies that gas supply to these plants should have been suspended from 01-06-2012. But these two plants continue to get gas and sell power at open market rates, of course in the garb of Case 1 Bidding.

5.6.6 In the case of Lanco's coal based thermal power plant at Amarkantak in Jharkhand coal linkage was cancelled as it does not have long term PPA with Chhattisgarh utilities. But in AP even after repeated reminders over the years nothing is being done. It is nothing but an open collusion among the Utilities, state and central governments. Commission also seems to have contributed to it by increasing the ceiling price to Rs. 5.50 per unit.

5.6.7 Even after all this, controversy there are doubts whether Lanco and GMR were selling all the power produced by their merchant power plants in AP only. If we take in to account the quantum of power supplied by these two merchant plants outside the state the actual burden from allocation gas to these merchant plants would be more than Rs. 1200 crore!

5.6.8 As far as Lanco II and GMR Barge mounted the ceiling price cannot be the standard, it is not the regulated price meant for these two plants specifically, is meant for short term power purchases from open market. These two plants are not green field projects, they got various facilities for their earlier projects and that is being used now. Gas was also allocated with the

condition that power generated shall be made available to AP only at the price determined by the Commission. The Commission did not determine price for these two plants.

5.6.9 We have brought to the notice of the Commission as well as the Utilities in the state a provision in the National Electricity Tariff Policy which allows procurement of power from extension plants of existing plants with the approval of the Commission. The Commission had directed the DISCOMs submit their response on this. DISCOMs wrote to the state government. And we did not hear after wards either from the DISCOMs or the GoAP. But now everybody is after Lanco and GMR to sign long-term PPA, with questionable motives.

Gas Price:

5.7.1 Per unit variable cost of power from gas based power plants increased from Rs. 1.85 some time back to Rs. 2.20 at present. No explanation was given for this hike. There is no transparency in the way gas prices are determined. Increase in gas price has adversely impacted the consumers. The price of gas from KG basin fields of RIL was increased from $ 2.52 to $ 4.2 per MBTU in a questionable manner. When natural gas price was in the range of $ 1.79 to 2.52 per MBTU variable cost of these plants stood below one rupee. This increased to Rs. 1.85 per unit once gas price increased to $4.2 per MBTU.

5.7.2 This gas price increase to $4.2 per MBTU is mired in controversy. The Prime Minister's Economic Advisory Council also found fault with the mechanism adopted in this price discovery. But still the GoI went ahead and gave clearance to this hike.

5.7.3 RIL sought gas price hike in the name of increased capital cost. It increased capital expenditure from $2.5 billion to $8.8 billion. CAG which audited these expenditures questioned the reasonableness of these expenditures. It found that ten contracts were awarded in questionable manner and wanted an in depth review of these contracts. Eight contracts were awarded to Aker Group on a single bid basis, without any competition. A contact of $1.1 billion was given to Aker Group against estimated original cost of $ 300 million. Following these findings CBI launched an inquiry in to Mr. V.K. Sibal who was the Director General of Hydrocarbons (DGH) when these expenditures were approved. The new DGH also found that while 22 wells need to be drilled by March 2011 to be able to produce 61.8 MCMD of gas only 18 wells were drilled. The GoI also came to a conclusion that $1.85 billion out of $5.694 billion already claimed to have been invested should be disallowed. As gas price was hiked in the name of increased capital cost and as it was found that the claimed capital expenditure by RIL was not real but inflated gas prices shall be brought down.

5.7.4 But now as if the above gas price increase is not enough the Committee a headed by Prof. Rangaragan, Chairman of the Prime Minister's Economic Advisory Committee recently recommended hiking gas price to $8 per MBTU. This Committee followed unheard of method to increase domestic natural gas prices primarily to benefit RIL. Even before RIL other domestic gas companies like ONGC and Cairn will reap enormous profits. Nowhere in the world is the domestically produced natural gas priced like this. The conditions of gas production change from country to country. In the past the RIL before the Bombay High court mentioned the cost of gas

production as $0.60. In response to an international bid floated by NTPC RIL won a bid to supply gas at the rate of $2.3 per MBTU. The proposed hike in gas price will add to the electricity consumers' burden enormously. If a comparison has to be done it should be with well head price of natural gas where natural gas is being produced, but not with RLNG. As the proposed hike is not based on any proper methodology it shall be opposed.

5.7.5 Following Prof. Rangarajan Committee report the Petroleum and Natural Gas Ministry has recommended a @6.7 per MBTU for domestically produced gas. And this is slowly expected to increase to $ 12 per MBTU. Nowhere in the world domestically produced gas is priced this high. Even in USA the RIL is reported to be selling gas at below$ 3 per MBTU from the wells operated by it. We request the DISCOMs as well as the GoAP to take up this issue with the GoI and see that the above arbitrary price is not imposed on the consumers in the state.

Other issues:

6.1 The Commission has put the limit of Rs. 5.50 per unit as the price for open market purchases. But the present FSA proposals of DISCOMs show that nearly 40% of the open market purchases were paid more than this limit. The DISCOMs are covering the above high price behind the so called market discovered price. We request the Commission not to approve higher prices. As the whole open market, short term power purchases are mired in controversies we request the Commission to conduct a detailed enquiry in to these purchases.

6.2 In the FSA claims for the fourth quarter of 2012-13 the DISCOMs included claims to the extent of Rs. 9.64 crore towards SLDC charges. As these are not related with power purchases admissible under FSA the same shall be rejected.

6.3 The DISCOMs also claimed Rs. 43.86 crore towards STOA during fourth quarter of 2012-13. The Commission in its order on FSA for third quarter of 2012-13 observed, "The Commission is of the view that the STOA charges claimed by DISCOMs are not part of fixed cost as per Tariff Order for Fy 2012-13. Hence, the same is not being allowed in determination of FSA". We request the Commission to treat DISCOMs' claim for STOA during fourth quarter of 2012-13 similarly.

6.4 The DISCOMs claimed Rs. 44.32 crore towards variation in fixed costs for the period of fourth quarter of 2012-13. They did not provide any explanation for this claim. We request the Commission to closely scrutinize their claim for additional fixed cost payments.

6.5 DISCOMs in the state in their annual audited accounts are declaring that they are earning huge profits. These profits are higher than the margins allowed by the Commission. If they are really earning these profits where is the need for the present FSA proposal? What is true – deficits or profits?

6.6 Commission itself is contributing to hike in power purchase costs – increase in ceiling of open market price to Rs. 5.50 per unit and recent increase in wind energy tariff are just two examples. And these decisions were also characterized by lack of transparency, and meant to benefit a section at the cost of electricity consumers in the state. In this context we would like to draw attention of the Commission to Section 86 (3) of the electricity Act, 2003 which stipulates that "The State Commission shall ensure transparency while exercising its powers and discharging its functions."

7.1 We request the Commission to provide us an opportunity to be heard in person during the public hearing on the above FSA claims of DISCOMs.

We request the Commission

- Not to approve present FSA proposals of the DISCOMs.
- Direct GENCO to start coal mining in the captive blocks allocated to it expeditiously.
- To review coal consumption by GENCO.
- Advise the state government to take up issues related to decline in gas production as well as gas prices with the GoI.
- Remind both the state and central governments on assurance given to the plants with PPAs on availability of gas from RIL's KG basin gas fields and see that these plants will get full requirement of gas.
- To take measures to recover Rs. 1200 crore additional burden imposed on the consumers from the merchant plants of Lanco and GMR.
- Give us an opportunity to be heard.

Thanking you,

Yours sincerely,

M. Thimma Reddy

Copy to:

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