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**ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION**

From

Secretary,  
# 8-2-283/B/1, Road.No.3,  
Banjara Hills, Hyderabad - 034

To

The Chairman & Managing Director,  
APTRANSCO, Vidyut Soudha,  
Hyderabad - 082.

c. c. The Chairman & Managing Director,  
APGENCO, Vidyut Soudha, Hyderabad - 082

Lr.No. APERC/Dir-Engg/DD-PPP/F-APGENCO-APTRANSCO PPA /D.No.3754/2001 dated 11/03/2001

Sir,

Sub:- APERC -Consent to APGENCO -APTRANSCO- PPA - Reg.

- Ref:-
1. Your Lr.No: CE/RAC/12/D.No:99/2000 dated 07-05-2000.
  2. T.O.Lr.APERC/Secy/F.Transco-Genco-PPA/D.No:1965/2000 dated 31.07.2000.
  3. Lr No:DF/APGENCO/OSD/F/D.No 178/2000 dated 30.9.2000.
  4. Lr No: CE(Comm)/IPP/Genco PPA clarifications/361 dated 18.12.2000.
  5. Lr No:CE/Plg & RAC/E11/D.No 50/2001 dated 3.3.2001.

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Further to the above correspondence and with regard to the consent to the PPA for FY2000-01 and FY2001-02 and the PPA beyond FY 2001-02 the following decisions of the Commission are <sup>hereby</sup> communicated :

- A. **PPA for FY2000-01**: The Commission accords consent U/s 21(4)(b) of APERA1998 to the PPA between APTRANSCO and APGENCO for the FY 2000-01 sent through letter 1<sup>st</sup> cited.

B. PPA for FY 2001-02: The following are the observations on the PPA sent through letter 5<sup>th</sup> cited:

- (a) **Actual:** The term "Actuals" has been used in number of places with different connotations. For example, Article 3.1 it is mentioned that the tariff is subject to revision based on "Actual" and in Article 3.1.1.1 (e) it is mentioned that the R&M expenses would be paid at "Actual" as per the audited balance sheet and in the same paragraph this is repeated as "O&M expenses shall be quarterly adjusted as per the "Actual". The three usages could be interpreted differently. Thus to avoid ambiguity the same is to be defined in Article 1 that defines the terms used in the PPA.
- (b) **Auxiliary consumption:** It needs to be clarified in absence of meters how it is intended to measure the actual auxiliary consumption. As per the information available, in most of the generating stations meters are not available to record auxiliary consumption.
- (c) **Return on equity:** The wording "ROE at 16% along with the incentives shall be paid according to the capital structure of APGENCO" in clause 3.1.1.1(b) along with schedule - I is to be deleted
- (d) **Supplementary bills:** In Article 5.2.1 sub clause (b) "Claims for increased costs, if any" is to be deleted.
- (e) **LC :Article 5.3:** The figure for total payments covered under LC are not mentioned. There is an item "others" which has no amount mentioned against it. This is to be clarified.

- (f) **Interest on Pension/PF bonds:** Statement II mentions the interest on Pension/PF bonds amount of Rs. 217.72 Crores. The detailed working of this amount should be submitted before the Commission.
- (g) Statement I to be modified by reducing the total fixed cost by Rs 15 crores for 2001-02 as per para 274 of the tariff order for the year 2001-02.

**C.PPA beyond FY2001-02:** The following are the general principles that need to be kept in mind while designing the PPA's for the periods beyond FY 2001-02:

- a) **Costs on normative basis and not on actual basis :** The commission intends to restructure the PPAs for the periods beyond FY 02 in a manner that the cost are calculated on normative basis, instead of actual basis adopted so far. Efficient "normatives" for different parameters are therefore to be arrived and agreed.
- b) **Structure of the PPA:** Adopting a common PPA for fixed costs component (fixed cost recovery to be pooled for APGENCO) and station wise for variable cost component to permit incentives and norm-setting and to enable merit order dispatch.
- c) **Term of the PPA:** The Commission directs APTRANSCO that the PPA beyond FY 2001-02 may,initially, be for a period of three(3) years
- d) **Approach to the PPA:** Element of incentives are to be introduced in the PPA. In principle the Commission would like the calculation of costs in the PPA to be done by pegging the operational parameters to some mutually accepted norms and to do away with the existing practice of reimbursing the generator on actual expenditure incurred. This will incentivise better operational efficiency on the part of APGENCO and also ensure that APTRANSCO is not compensating for the inefficiency of APGENCO at the actual.

- e) **Time frame for submission of PPA:** The Commission directs the APTRANSCO to submit for approval on or before October 31, 2001 the PPA applicable for period beyond FY 2001-02. The reason for adhering to this deadline is to ensure incorporation of the power purchase costs (as per the approved PPA) in the tariff filing for the year FY 2002-03.
- f) **Return on Equity:** The principle of recognising return on equity as an expense that needs to be provided for in the tariffs may be introduced.
- g) **Interest on working capital:** This clause should be reworded to intend that the interest on working capital shall be the interest on actual working capital loans maintained by APGENCO or interest on the approved components of working capital whichever is less.
- h) **Loan repayment in lieu of Depreciation:** APGENCO needs to explain its plan for avoiding the peaking loan repayment in FY 2004-05 and FY 2005-06 as is seen from the existing debt profile of the company. It is to be noted that the total payment under the loan repayment head along with depreciation already allowed should be limited to 90% of the Gross Fixed Assets.
- i) **Fixed cost Coverage:** Presently the recovery of fixed cost is in full irrespective of the level of actual generation. There should be a fixed cost recovery schedule with the entire amount being recovered only at a targeted PLF level in case of thermal generating stations and target availability in case of hydel generating stations.
- j) **Incentive:** There should be an incentive in place for APGENCO for actual performance of PLF or availability beyond a certain level.
- k) **Penalty and Rebate:** Rebates and penalties on payments may be introduced. The penalties for delay in payments should be matched to short term borrowings.
- l) **Coal Price:** Efforts are to be made to eliminate the loss sustained due to grade difference in the coal supplies for which supply agreements may be insisted.
- m) **Dispute resolution authority:** APERC as against GOAP.

- n) **Auxiliary power consumption** : Auxiliary power consumption have to be identified clearly and should be segregated from colony consumption in all the generating stations.
- o) **Providing of 0.2 class accuracy meters** : 0.2 class accuracy meters shall be installed at all the interface points .
- p) Interest expenses have to be normative or actual, which ever is less.
- q) Additional capitalisation due to Renovation and Modernisation can be allowed with corresponding performance improvements only.

Yours Faithfully,

*[Signature]*  
 16/7/01  
 SECRETARY  
 C.O.A. by the owner

*[Signature]*  
 PD/PPP  
 10/7/2001

*[Signature]*  
 30/7/2001

*[Signature]*  
 10/7/01  
 Dr. Euss

o/c

**A P E N C**  
 HYDERABAD.  
*[Signature]*  
 17 JUL 2001  
**DESPATCHED**